

SCOMM

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TOKYO GAS CO., LTD.

Annual Report 2000

For the year ended March 31, 2000



A

Multifaceted Energy Growth Strategy



 TOKYO GAS

Profile

Tokyo Gas, Japan's largest gas company, is the dominant player in the greater Tokyo/Kanto Plain marketplace, a market where demand potential is enormous. Capital investments we have made have positioned us to capitalize on this potential as well as business opportunities being spawned by deregulation in Japan's energy sector. Technology will also drive growth. We intend to actively propose new technologies for using gas to spur demand. An even more ambitious goal we have set is to turn Tokyo Gas into a diversified energy services company, supplying heat and electricity as well as gas by taking maximum advantage of our powerful infrastructure. Achievement of these goals will translate into higher profits, which we intend to return to customers and shareholders.

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Forward-Looking Statements

Statements made in this annual report with respect to Tokyo Gas' plans, strategies and beliefs, and other statements that are not expressions of fact are forward-looking statements about the future performance of the company. As such, they are based on management's assumptions and opinions stemming from currently available information, and therefore involve risks and uncertainties. These risks and uncertainties include, without limitation, general economic conditions in Japan, the exchange rate between the yen and the U.S. dollar, and Tokyo Gas' ability to continue to adapt to rapid technological developments and deregulation.

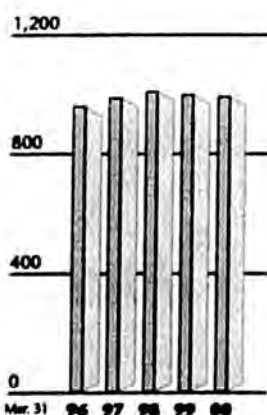
Financial Highlights

Tokyo Gas Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

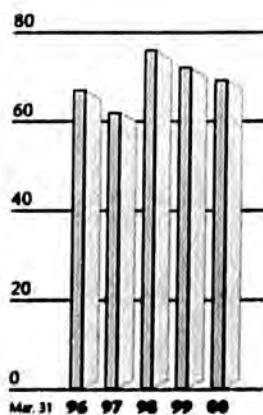
	Millions of yen except per share amounts			Thousands of U.S. dollars except per share amounts
	2000	1999	1998	2000
For the Year				
Net sales	¥ 992,255	¥ 997,767	¥1,009,155	\$ 9,360,896
Operating income	69,233	72,303	76,485	653,142
Net income	26,698	17,764	17,241	251,868
Depreciation	136,214	132,568	114,893	1,285,038
Capital expenditures	121,806	142,030	159,433	1,149,113
Amounts per share of common stock (Yen and U.S. dollars):				
Net income (Basic)	9.50	6.32	6.14	0.09
Net income (Diluted)	8.84	5.94	5.76	0.08
Net income and depreciation	58.0	53.5	47.0	0.55
At Year-end				
Total assets	¥1,805,086	¥1,707,446	¥1,720,684	\$17,029,113
Long-term debt due after one year	843,634	820,753	765,304	7,958,811
Total stockholders' equity	484,239	421,442	417,755	4,568,292
Ratios				
Net income/Net sales	2.7%	1.8%	1.7%	
ROE	5.9%	4.2%	4.1%	
ROA	1.5%	1.0%	1.0%	
Equity ratio	26.8%	24.7%	24.3%	

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥106=U.S.\$1, the approximate Tokyo foreign exchange market rate as of March 31, 2000.

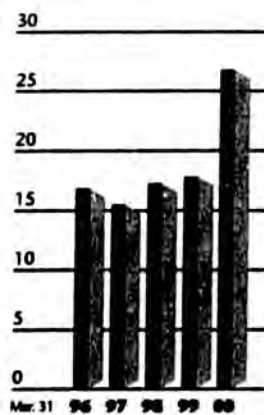
Net Sales
(Billion ¥)



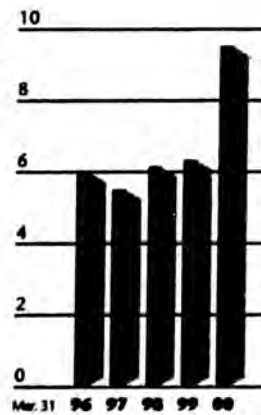
Operating Income
(Billion ¥)



Net Income
(Billion ¥)

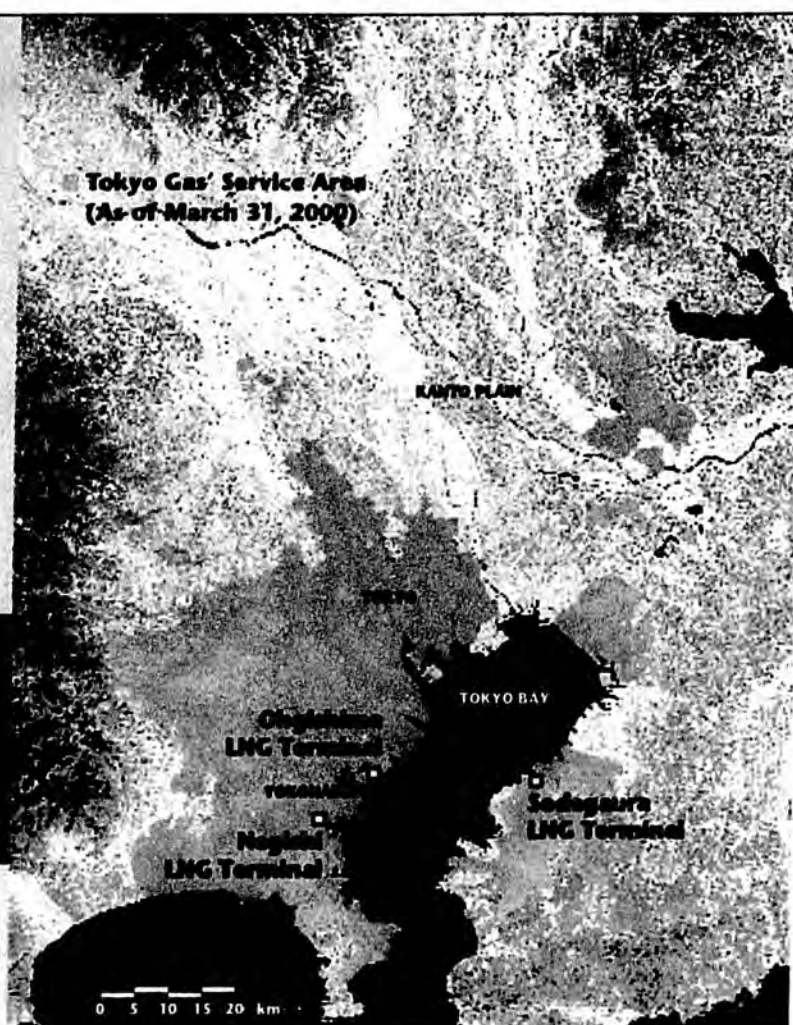


Net Income per Share
(Basic)
(¥)

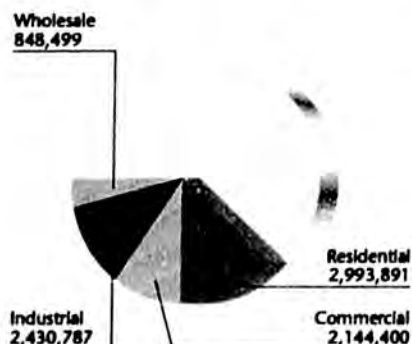


Our Position in the Market

Tokyo Gas is Japan's largest gas company both in terms of the number of customers—over 8.7 million in total—and gas sales volume. Our service area covers approximately 3,200 square kilometers in Tokyo and neighboring prefectures. It is located in the heart of the Kanto region, the largest and most densely populated region in Japan with a total of some 40 million people. Tokyo's position as the locus of Japanese commerce—many companies are headquartered here—makes our service area even more vibrant. What's more, the Kanto region is Japan's most industrialized area, accounting for 38% of Japan's GDP. This enormous and economically diverse service area is thus unquestionably a key strength.

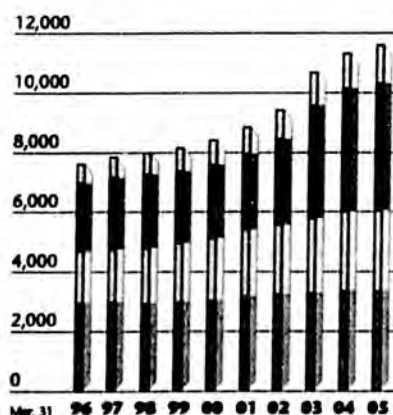


Gas Sales Volume In Japan and Tokyo Gas by Sector
(Year ended March 31, 2000)
Unit: thousands of m³ (46.047 MJ/m³)



Japan 21,773,667
Tokyo Gas 8,417,577

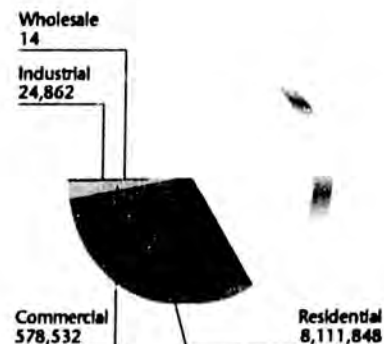
Growth In Tokyo Gas Gas Sales Volume by Sector
Unit: million m³ (46.047 MJ/m³)



■ Residential ■ Commercial ■ Industrial
■ Wholesale

Note: 2001-2005 are projected figures.

Number of Gas Customers in Japan and Tokyo Gas Customers
(As of March 31, 2000)



Japan 25,614,006
Tokyo Gas 8,715,256

* The above three graphs represent non-consolidated data.

Natural Gas—Energy of the Future

Natural gas has emerged as a main source of energy because it is both environmentally friendly and reserves are spread throughout the world. Compared to oil reserves, roughly 60% of which are concentrated in the Middle East, natural gas is found worldwide, including North America, Southeast Asia, Australia and Russia. Natural gas reserves are also expected to last longer than those of oil. Demand for natural gas is projected to grow by 18%, as compared to 1996, by 2010 according to the Ministry of International Trade and Industry (MITI) report entitled *Long-term Energy Demand and Supply Outlook for Japan (1998)*. Overall energy demand, by comparison, is predicted to increase 3%. Presently, MITI is revising this outlook due to a forecast decrease in supply of nuclear power following a recent accident at a nuclear facility in Japan and growing opposition to the construction of nuclear power plants. This trend spells a likely increase in demand for natural gas.

Tokyo Gas' Role in the Market

Ensuring a stable, diverse and long-term energy supply centered on natural gas is our main corporate mission. We are presently importing LNG based on long-term contracts from six major natural gas exporting areas: Alaska, Brunei,

Malaysia, Australia, Indonesia and Qatar. Tokyo Gas has considerable expertise and knowledge concerning LNG, having been the first Japanese company to import this energy resource from Alaska in 1969. Moving forward, Tokyo Gas intends to continue to supply competitively priced natural gas in response to diversifying market needs.

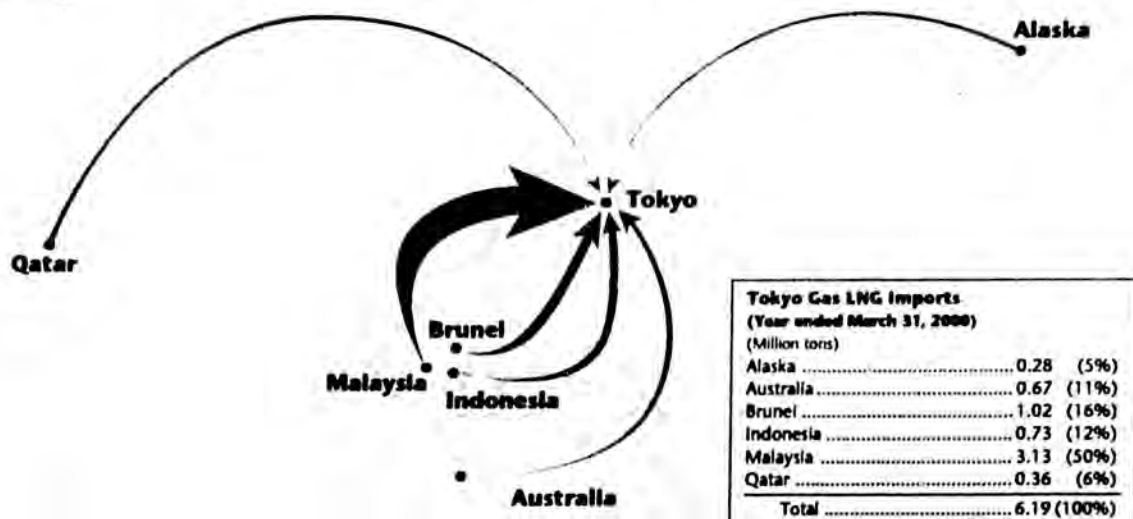
Complementing this procurement capability are our production systems—centering on the world's largest and most technologically advanced LNG receiving terminals—and transmission and distribution network.

By leveraging the sum of these parts, we aim to carve out an even stronger position in Japan's energy sector. Prospects are bright. Average growth in demand of 6.6% per annum is forecast for Tokyo Gas' gas sales volume until the year ending in March 2005. This represents a high growth rate in comparison to growth forecasts for other energy sources and the Japanese economy as a whole.

At Tokyo Gas, natural gas is positioned as the cornerstone of the company's energy and energy-related operations. Building on this strong foundation, Tokyo Gas is aiming to power steady growth by evolving into a diversified energy services company, supplying heat and electricity as well as gas.

Global Natural Gas Procurement

Japan imported approximately 52 million tons of LNG in the year ended March 31, 2000. Tokyo Gas accounted for roughly 6.2 million tons of those imports.



Message From Management



Right: Kunio Anzai
Chairman

Left: Hideharu Uehara
President

Mega-competition is knocking at the door of Japan's energy sector. And deregulation is unlocking it. This movement is being further accelerated by the worldwide information technology revolution. Gas and electricity companies are entering each other's fields. Even companies from other industries are announcing their arrival. We welcome this new era. With "deregulation" and "change" comes "opportunity." Bring it on. We believe we have what it takes to seize the opportunities and grow. That was our message last year—and it hasn't changed. If anything, we're more convinced than ever that we have what it takes to drive growth. In November 1999, we released a new medium-term management plan covering fiscal 2000, the year ending March 31, 2001, through fiscal 2004. In this message, and throughout this report, we will explain how we aim to accomplish our goals over the next five years and beyond.

The Year in Review

Consolidated net income for fiscal 1999, the year ended March 31, 2000, increased 50.3% year on year to ¥26.6 billion. As a result, return on assets (ROA) improved from 1.0% to 1.5%.

Gas sales volume in the Tokyo Gas Group increased 3.2% from a year ago. Gas sales in monetary terms, however, were

down ¥2.9 billion at ¥672.0 billion due to two main factors: reduction in gas rates based on the gas cost adjustment rate system, and implementation of a downward rate revision in December 1999. Consequently, consolidated net sales declined 0.6% to ¥992.2 billion. Operating income also decreased, down 4.2% to ¥69.2 billion. An improvement in other income (expenses) and the effect of a reduction in Japan's statutory tax rate, however, led to growth of net income.

Deregulation

Major strides were made in energy sector deregulation in fiscal 1999.

In the Japanese gas industry, revisions to the Gas Utility Industry Law were enacted in November 1999. Those revisions lowered the threshold at which regulations on gas supply areas and rate-setting were removed for large-volume customers—from those consuming 2 million cubic meters or more per year to 1 million or more. In addition, the process for reducing gas rates was simplified. Companies can now lower rates simply by filing a report with the Ministry of International Trade and Industry (MITI). Previously, it was necessary to navigate a complex system to obtain permission. Furthermore, we gained more management independence. Gas companies are now

free to use part of their profits from business activities to strengthen their balance sheets and return profits to shareholders, rather than solely for the reduction of gas rates as in the past.

In the electricity industry, revisions to the Electricity Utility Industry Law in March 2000 opened the door to liberalized electricity sales to large-volume customers, defined as users with a capacity of over 2,000 kW and using a 20 kV supply or more.

We view the advancing deregulation in both the gas and electric utility industries positively. As mentioned in the opening of this letter, deregulation is creating new and exciting business opportunities. Natural gas, which is environmentally friendly and for which there are stable supply sources, is the cornerstone of our strategy to seize these opportunities. By promoting its advantages, we will fortify our position in the greater Tokyo market and transform Tokyo Gas into a diversified energy services company. That means we will supply heat and electricity, as well as gas. Gas-fired cogeneration systems, which provide electricity and thermal energy, will be a core driver of growth.

What Are Tokyo Gas' Competitive Advantages?

We believe the following core strengths will give us a competitive edge amid intensifying competition in the energy sector.

1. Natural gas, our core product, beats other energy sources

hands down in terms of its minimal environmental impact and energy efficiency.

2. A powerful and reliable network—connecting a broad base of customers exceeding 8.7 million in total—with an enhanced supply capability ready to meet growing future demand with minimum additional investment.
3. Strong marketing capabilities backed up by engineering expertise and price competitiveness.
4. The technological competency to meet market needs.

By leveraging these strengths to the maximum, we will expand existing business domains and advance into new ones, including electricity retailing.

Medium-Term Management Plan Offers Blueprint for Success
The medium-term management plan we formulated in November last year is grounded on these strengths. This plan aims to maximize corporate value and thereby earn us high marks from customers, shareholders and other stakeholders. To this effect, we will increase free cash flows—net income plus depreciation expenses less capital expenditures—and improve asset efficiency.

Maximizing Free Cash Flows to Maximize Corporate Value

We have set increasing free cash flows as a yardstick by which we will measure our success at creating corporate value. By implementing measures to streamline management and increase gas sales volume by enhancing our competitiveness,

Profitability and Financial Position Improvement Targets		
[Non-Consolidated]	March 31, 2000	March 31, 2005
Net sales	¥869.9 billion	¥1,020 billion (Average growth rate of 3.2%)
Total assets	¥1,493.6 billion	¥1,440 billion
Interest-bearing debt	¥761.9 billion	¥610 billion
Equity ratio	29.7%	39.0%
	March 31, 2000	5-Year Average (Year ending March 31, 2001 through year ending March 31, 2005)
Free cash flows	¥26.0 billion	¥50 billion (5-year total: ¥250 billion)
ROA	1.5%	1.9%
Total asset turnover	0.60 times	0.65 times
[Consolidated]	March 31, 2000	March 31, 2005
Net sales	¥992.2 billion	¥1,170 billion (Average growth rate of 3.3%)
	March 31, 2000	5-Year Average (Year ending March 31, 2001 through year ending March 31, 2005)
Free cash flows	¥42.0 billion	¥61.5 billion (5-year total: ¥307.5 billion)
ROA	1.5%	1.7%
Consolidated net income to non-consolidated net income	1.19 times	1.13 times

we aim to achieve non-consolidated free cash flows totaling ¥250 billion, an average of ¥50 billion per year, over the 5-year period from fiscal 2000 through fiscal 2004. Free cash flows in fiscal 1999, by comparison, were ¥26 billion.

These free cash flows are to be earmarked for reducing interest-bearing debt, returning value to shareholders either by repurchasing and retiring treasury stock and/or increasing dividends and investing in new businesses.

Regarding interest-bearing debt, we increased debt over a number of years to finance the construction of core facilities to meet predicted expansion in demand. As of March 31, 2000, this debt stood at just over ¥760 billion, representing approximately 50% of total assets. Tapping the additional free cash flows we expect to generate, we plan to bring interest-bearing debt down to ¥610 billion by the year ending March 31, 2005.

Improving Asset Efficiency

A little under 10% of our total assets of roughly ¥1.5 trillion as of March 31, 2000, will be accounted for by production and supply facilities that are presently under construction and will help us to meet higher demand in the future. When these facilities come on line and demand increases, we will start recovering these investments. By working to improve our top line and earnings at the same time as reducing total assets and using existing assets more effectively, we intend to raise ROA and total asset turnover. Specifically, our goal is to raise ROA to an average of 1.9% from 1.5% in fiscal 1999 over the 5-year period from fiscal 2000 through fiscal 2004; total asset turnover will be raised from 0.60 times in fiscal 1999 to 0.65 times over the same period.

Achievement of these goals will call for greater management efficiency to strengthen operations, and rate reductions and organizational reforms to bolster our competitiveness. Here's what we intend to do in this regard.

Driving Efficiency

Personnel Reductions

We plan to lower our head count at the parent company to 10,000 people by the end of fiscal 2005. We will accomplish this personnel reduction through organizational reforms, systematization, retooling of administrative processes and fostering staff potential to reduce personnel. Putting limitations on new recruitment is also part of our strategy.

Controlling Operating Expenses

We plan to hold operating expenses to the fiscal 1998 level of ¥224.2 billion for the next 3 years. While higher than the

¥215.3 billion in operating expenses recorded in fiscal 1999, reflecting our expectation that fixed expenses will increase in line with steady expansion of our customer base, we aim to keep a lid on operating expenses by implementing streamlining measures.

Internal Financing of Capital Investment

Tokyo Gas is close to putting the finishing touches on several large-scale infrastructure projects. While using existing assets effectively, we aim to keep future capital expenditures on production and supply facilities within the limits of free cash flows in the 5-year period through fiscal 2004. This will be achieved by reviewing construction methods and specifications as well as rationalizing purchasing to find ways to slash costs.

Introduction of a Strategic Management Structure

In July 1999, we reduced the number of divisions and departments by approximately 30%. At the same time, we carried out reforms to put in place a strategic divisional system comprising six divisions aligned in terms of functions and markets. These changes are intended to drive administrative efficiencies. They are also designed to strengthen our marketing capabilities and enhance customer services and safety. Augmenting this new strategic framework is an innovative business management system introduced in April 2000. The new system, in a sense, entails each division and department working like an independent company, and clearly spells out the responsibilities of each section as well as the targets and results that are expected of them.

First of Two Rate Reductions Implemented

Tokyo Gas had announced plans to reduce rates by a total of 4-5% through two reductions. In December 1999, we carried through on that promise, reducing rates by an average of 2%. The second rate reduction, planned for the current fiscal year, will be in the order of 2-3%. The rate reductions are intended to make gas an even more attractive energy alternative.

Expanding Demand by Strengthening Competitiveness

Based on these strategies to bolster our competitiveness, we plan to expand gas sales volume. The most promising area is the gas market for electricity generation, including gas-fired cogeneration, whose share in our gas sales volume is expected to increase from 15% at present to 27% by the year ending in March 2005.

One major supply contract will contribute to the achievement of this target. Starting in fiscal 2001, we plan to supply upwards of 1.0 billion cubic meters of gas per year

to The Tokyo Electric Power Company's Shinagawa thermal power station. That equates to about one-tenth of all the gas we supply.

Recent trends are working in our favor. We are seeing a shift from large-scale power generation to distributed power generation and on-site electricity generation. This promises to lead to higher demand for gas from IPPs (independent power producers) and electricity supply in specific areas such as redevelopment zones. Micro turbines will also likely spur gas demand. They have attracted attention in recent times as a major step toward the introduction of cogeneration systems for small-scale, private-sector users. This market has been difficult for gas companies to penetrate until now because of the lack of suitable products. Moreover, recognizing the importance of alliances in this changing business environment, we are conducting feasibility studies with a view to entering the electricity retailing sector ourselves with NTT Facilities and Osaka Gas.

Contributing to Local Communities

One of our greatest assets is our broad base of 8.7 million customers. To enlarge this base we are upgrading customer services and stressing maintenance and improvement of the stability of supply and safety. Furthermore, research and development is being emphasized to respond to diverse customer needs in an aging society which is being fundamentally altered by advances in IT. Information technology is an important area of focus. We are planning to establish, for example, two-way communication with customers via the Internet. Tokyo Gas is also actively involved in environmental issues. Expanding the use of clean-burning natural gas is one example. Moving forward, we intend to promote the use of energy-efficient equipment and systems as well as the reduction of industrial waste volumes and greater recycling. By doing so, we will play our part in contributing to the realization of a sustainable society.

Stepping up Overseas Activities

Overseas activities are taking on greater importance for the Tokyo Gas Group. Heretofore, our four representative offices overseas in New York, Paris, Kuala Lumpur and Beijing have been used mainly for gathering information and for management and technological exchange with foreign energy-related companies and institutions. While continuing these activities, we also intend to use these offices as conduits for disseminating information to investors abroad.

Leveraging our experience and successes in overseas projects, we intend to develop overseas operations. We can point to our joint venture projects in Malaysia in particular to demonstrate our capabilities. These included the construction and operation of a natural gas distribution system. This was the first such overseas project undertaken by a Japanese energy utility company. Gas Malaysia Sdn. Bhd., the joint venture company, started paying dividends in 1999.

Focusing on Consolidated Management

Japanese companies were required to start reporting consolidated financial information starting in the fiscal year ended March 31, 2000. Tokyo Gas, however, has been practicing consolidated management for some time now. In 1993, for example, we reorganized the Tokyo Gas group into 10 business fields, including energy sales, cryogenic energy use and chemicals businesses. One company was established in each field to take the leading role. Their goals were to drive management efficiencies within their fields and grow earnings. In fiscal 1999, we undertook a review of each of our businesses. At the same time, we formulated guidelines for when to withdraw from unprofitable businesses and for when to reduce and consolidate group companies. We intend to clearly delineate the strategic position of each group company to raise the value of the Tokyo Gas Group.

In Conclusion

As deregulation takes hold, we are likely to see more and more entrants into Japan's gas and electricity businesses from both within Japan and overseas as well as from other industries. We are determined, however, to grow as a leading company in this climate of change. We are committed to executing the plan we have formulated to produce the results you expect of us, and to continue to be a major player in the "natural gas era" of the twenty-first century.

July 2000



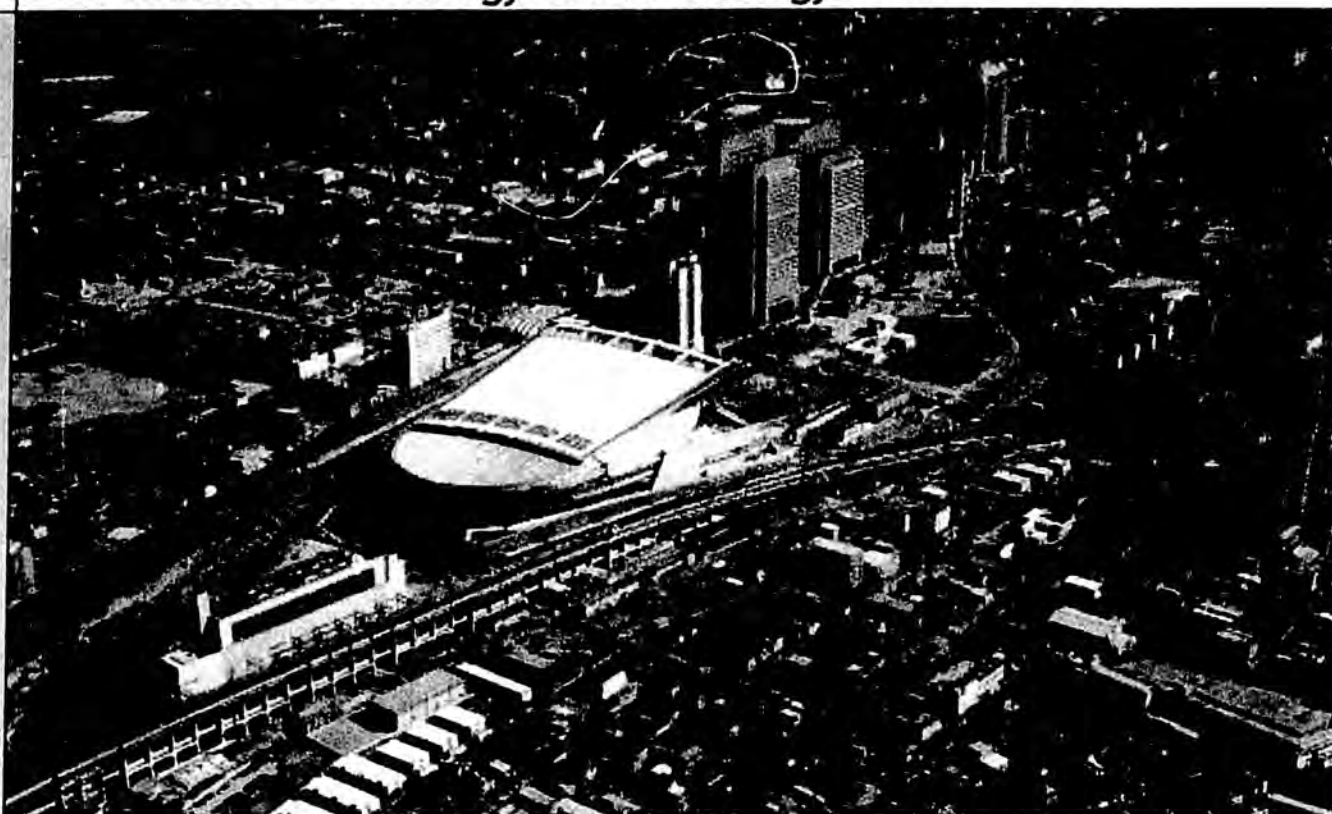
Kunio Anzal

Chairman



Hideharu Uehara

President



The Saitama New City Center district heating and cooling system covers an area of 27.3 hectares that is home to 10 government departments and 17 government offices. The system supplies heat in an energy-efficient and environmentally friendly manner using gas-fired cogeneration.

Toward an Increasingly Diversified Energy Services Company

Japan's energy sector stands on the threshold of an era of mega-competition. Regulations are being torn down, gas and electric utilities are entering one another's fields and major overseas energy companies have signaled their intention to enter the electricity industry in Japan. Tokyo Gas regards this industry realignment as an opportunity to expand its sphere of business. And natural gas will be the core energy source propelling our growth. Tokyo Gas has set its sights on growing into a diversified energy services company, supplying heat and electricity as well as gas.

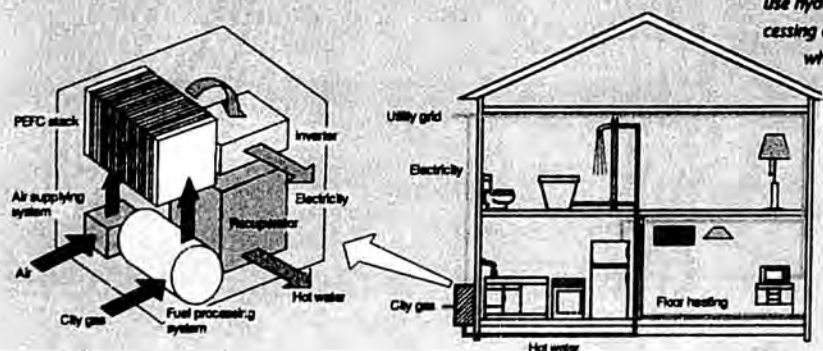
The Superiority of Cogeneration

Society is demanding energy that is both environmentally friendly and for which there is a stable supply. Natural gas meets these demands. As such, its importance to society is increasing. Furthermore, in recent times, small and medium users, as well as large-volume customers, have grown more conscious of reducing energy costs. Gas cogeneration systems that supply both electricity and thermal energy are coming into their own both as an answer to environmental issues and to raise energy efficiency. Tokyo Gas plans to leverage its competitive edge in gas cogeneration systems to aggressively develop these operations and capitalize on an expected increase in demand for natural gas for power generation and cogeneration in the greater Tokyo/Kanto Plain area.

Expanding Existing Businesses

As a result of revisions to the Japanese Gas Utility Industry Law in 1999, Tokyo Gas can now supply customers outside its service area who consume 1 million or more cubic meters of gas per year. Previously, the threshold was twice that. This legislative change is

Configuration of Residential Fuel Cell Cogeneration System



This energy-efficient household cogeneration system generates electricity through fuel cells, which use hydrogen produced by innovative fuel processing equipment. The thermal energy emitted when electricity is generated is captured by a recuperator and used for water heating and floor heating.



Tokyo Gas intends to couple its proprietary recuperator technology with micro turbines developed by Capstone Turbine Corporation to offer cogeneration solutions.

expected to spark fierce competition. Heretofore, Tokyo Gas has devoted itself to introducing and popularizing gas cogeneration systems, mainly to large-volume users. In April 2000, the Saitama New City Center district heating and cooling system started operations in Saitama Prefecture, as Tokyo Gas' 15th district heating and cooling operation. We intend to take full advantage of the expertise, technological capabilities and engineering skills we have acquired from such operations to power growth in gas demand.

Entering New Businesses

In March 2000, revisions were enacted to the Electricity Utility Industry Law, opening the door to unrestricted electricity sales to large-volume customers. The enactment of these revisions is expected to have a profound effect on the energy sector and spark further deregulation of the generation and sale of electricity. In response, Tokyo Gas is considering entering the electricity retailing field with NTT Facilities and Osaka Gas. Furthermore, with demand expected to increase for natural gas as a fuel for electricity generation, Tokyo Gas sees a new business opportunity to transport gas to power producers, leveraging its gas pipeline network.

Small Distributed Power Generators—A Technology for the Future

Amid the accelerating shift from large-scale power generation to small distributed power generators, the spotlight is falling on small-scale, on-site electricity generation. Micro turbines, in particular, are stealing the limelight. Leading the market at present are two U.S.-based manufacturers of micro turbines. Tokyo Gas is looking to package their leading-edge technology with its energy-efficient cogeneration systems for commercialization in Japan. We are targeting commercial demand such as small and medium-size hospitals, hotels, shops and other establishments, as well as small and medium-size industrial demand, where the diffusion rate of gas cogeneration systems is relatively low. In April 2000, Tokyo Gas formed the Micro Cogeneration Section to formulate a strategy and carry out feasibility studies.

A fuel cell cogeneration system for residential use is another in which we project success. This system generates electricity as well as hot water through Polymer Electrolyte Fuel Cells (PEFC), using hydrogen reformed from gas.

PEFCs are attracting attention for their potential contribution to environmental preservation and energy conservation. Compactness and simplicity of operation are among their outstanding features. Tokyo Gas estimates that the introduction of these cells will lead to the consumption of about 50% more gas for home electricity and hot water than a typical household currently requires for hot water alone. That spells growth for Tokyo Gas. To tap this potential, we are working toward commercializing these systems.

In the year ending March 31, 2001, a large-scale national project for the development of these fuel cells will be initiated. Manufacturers and gas suppliers are expected to team up to develop this technology. Joining this project as a member of the Japan Gas Association, Tokyo Gas will work to bring PEFCs to market as soon as possible.



The residential sector accounts for over 90% of Tokyo Gas' gas customers. As such, this sector will be an important source of stable demand in the future.

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Spurring Residential Gas Demand

In terms of absolute numbers, residential customers account for over 90% of Tokyo Gas' customers. This makes the residential market an important pillar of the company's business. To expand demand here, Tokyo Gas has adopted a two-pronged strategy. One strategy focuses on marketing activities, in particular the expansion of heating demand. The other aims to raise customer satisfaction.

Marketing Initiatives to Spur Residential Gas Consumption

Already, we are the preferred energy supplier for water heating and cooking in our service area with market shares of 96% and 76%, respectively. We aim to maintain this preferred status by developing highly efficient, high-quality products. In the extremely competitive heating sector, where gas heating accounts for only 30% of the market, we are aiming to spur demand by popularizing gas floor heating and gas fan heaters. Floor heating has many strong selling points. For one, it is ideally suited to the Japanese custom of sitting on the floor at home. Floor heating is also a clean and comfortable heating alternative and helps control house dust and mold that can cause allergies. These advantages suggest that floor heating could become established as the *de facto* standard for heating in Japanese homes. Newly constructed houses are an obvious target, but we are also marketing products for existing homes. To cater to customers with homes where floor heating is not an option, we are promoting the virtues of fan heaters, which are highly efficient, environmentally friendly and inexpensive.



Demand for gas floor heating is expanding. Not only is floor heating clean and comfortable, but it boasts superior energy efficiency and cost advantages.

Through 370 Enesta and Enefit service outlets nationwide, Tokyo Gas is providing a broad range of services to make gas even more user friendly.



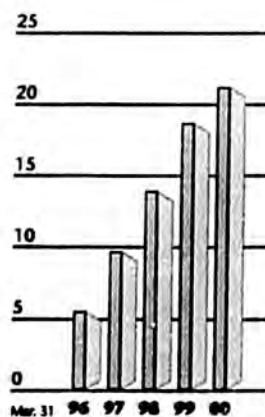
A Customer-Based Approach

Customer satisfaction is an important key to becoming the preferred energy supplier. That's why we are stepping up our efforts to offer better services from various angles. Improved safety, more attractive rates, low-maintenance appliances and lifestyle ideas are just some of the ways we are working to spur residential gas consumption—and build stronger bonds of trust with our customers.

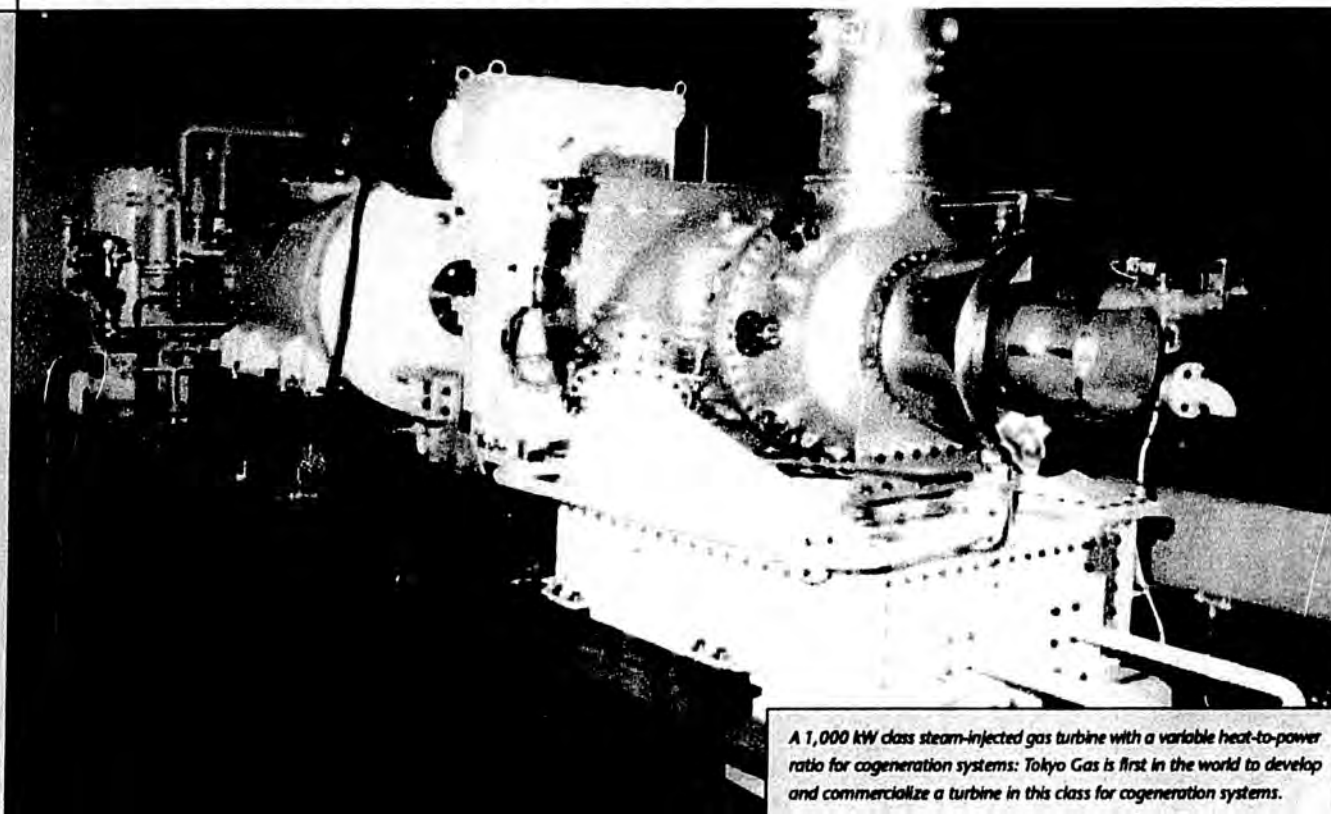
Playing a significant role here is our customer service network. Our 18 branches offer total consulting solutions, including inspections of appliances in homes once every 3 years and meter reading. To further deepen relationships with residential customers, we have established 12 call centers to handle inquiries from customers.

Augmenting our customer service network are roughly 370 Tokyo Gas franchise-based service outlets. Operating under the names Enesta and Enefit, these outlets provide a broad range of services ranging from gas pipeline works to installation and repair of gas appliances and household renovations.

Percentage of New Housing With Gas Floor Heating Systems in the Tokyo Gas Service Area (%)



Tokyo Gas visits customers' homes once every three years to carry out inspections of gas appliances.



A 1,000 kW class steam-injected gas turbine with a variable heat-to-power ratio for cogeneration systems: Tokyo Gas is first in the world to develop and commercialize a turbine in this class for cogeneration systems.

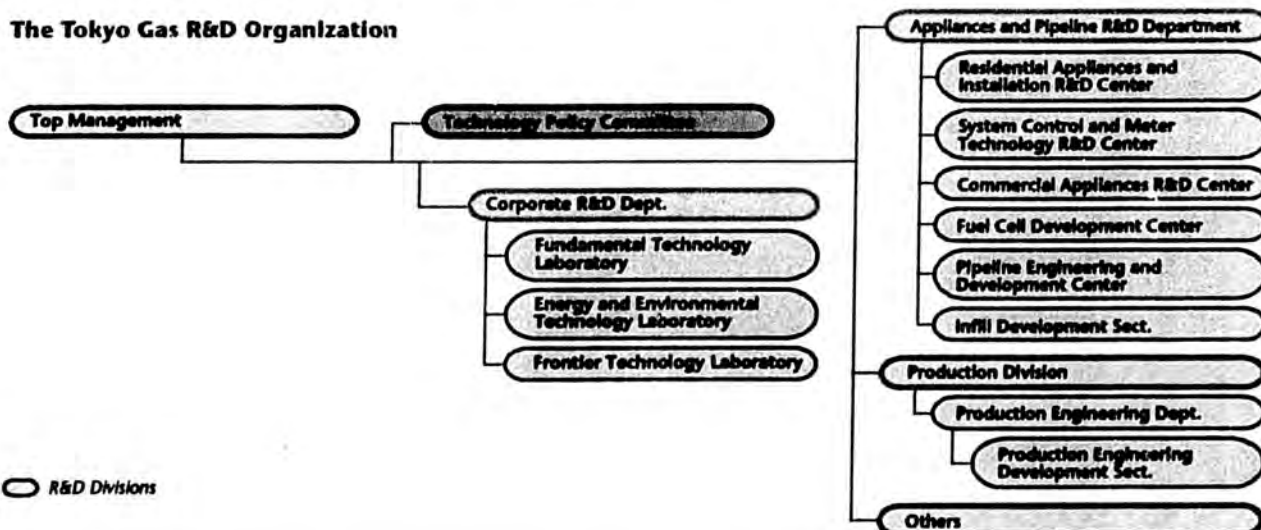
Methane hydrate combustion: Tokyo Gas is pushing ahead with research into technologies for using methane hydrate, which is expected to become a major source of energy in the 21st century.

12

A Focus on Technological Innovation

Research and development is positioned as a major corporate theme at Tokyo Gas as a means of driving growth in existing businesses and creating business opportunities. Our main goal is to make gas the preferred form of energy by ensuring a stable supply of low-cost, safe natural gas. To this effect, we are emphasizing speed and profitability and allocating resources selectively. Three areas have been singled out for research and development in line with this policy.

The Tokyo Gas R&D Organization



R&D Targets and Themes



Promote Advanced Gas Utilization

We are developing products that enable customers to use environmentally friendly gas more efficiently, cheaply and easily. These products include residential gas appliances, commercial kitchen equipment, gas-fired air conditioners, cogeneration systems and equipment for industrial use.

Enhance the Supply and Operation Infrastructure

We are conducting research to supply gas to even more customers at attractive rates and with long-term reliability. This will allow us to meet society's demand for the increased use of natural gas, an environmentally benign fuel, as a primary source of energy. At the same time, this research will drive growth in our customer base.

Increase Customer Satisfaction and Create Profitable Businesses

To meet our customers' diverse needs, Tokyo Gas is carrying out R&D that will broaden customer services by using the latest information and communications technologies, including the Internet. Furthermore, we are working on research that will lead to new businesses rooted in unique Tokyo Gas technical expertise.



Tokyo Gas Makes Breakthrough With Diamond Ultraviolet Light-Emitting Device

Tokyo Gas has developed the world's first diamond ultraviolet light-emitting device capable of operating at room temperature. The device uses a high-quality semiconductor diamond made from carbon powder. Significantly, the carbon powder is extracted from LNG. This technology has the potential to increase the recording density and capacity of optical disks. What's more, it doesn't use harmful substances like mercury making it an environmentally friendly lighting alternative.



December 1999 saw the completion of the Keihin and Yokohama transmission pipelines. Tokyo Gas now boasts a 300km-long supply loop encircling the greater Tokyo area. Pictured is the Tsurumi River Bridge, which was built for the Keihin Transmission Pipeline.

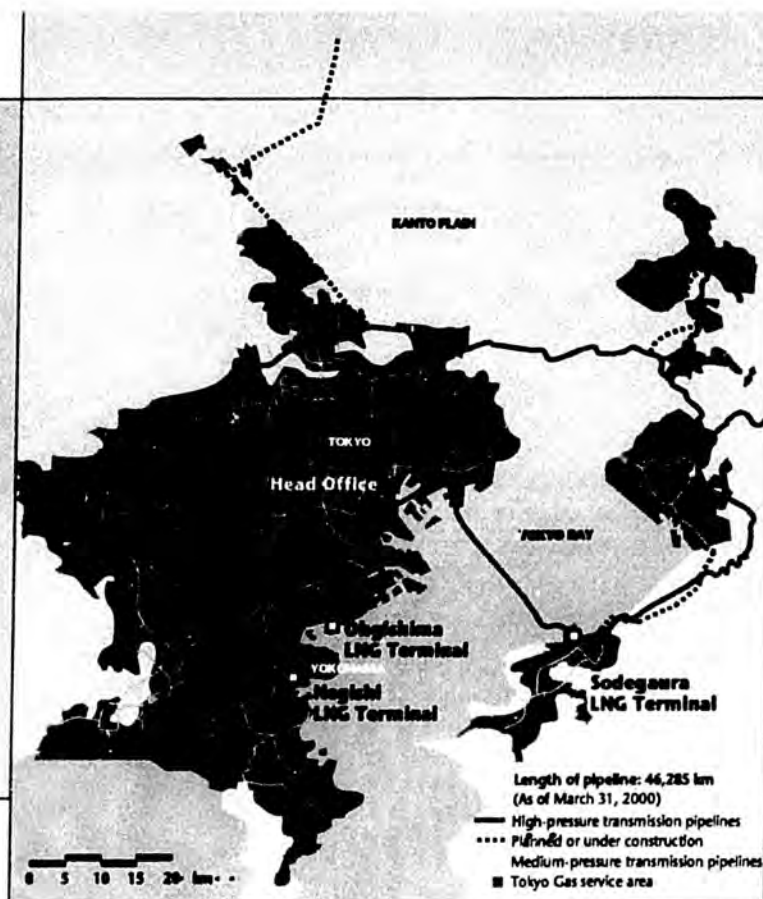
14

Powerful Supply Infrastructure— the Foundation of Our Competitiveness

Demand for natural gas has risen as alternative energy sources other than petroleum are sought and the government looks for solutions to environmental problems. Tokyo Gas was quick to recognize this trend. We reacted by constructing the Ohgishima LNG Terminal, the Keihin Transmission Pipeline and other facilities to bolster our supply capacity. With these major projects having largely been completed by the end of March 2000, we will start recovering our investment in the year ending March 2001. Leveraging this powerful supply infrastructure, Tokyo Gas hopes to expand demand and increase profits. We also expect to generate higher free cash flows.

Unrivaled Natural Gas Supply Capacity

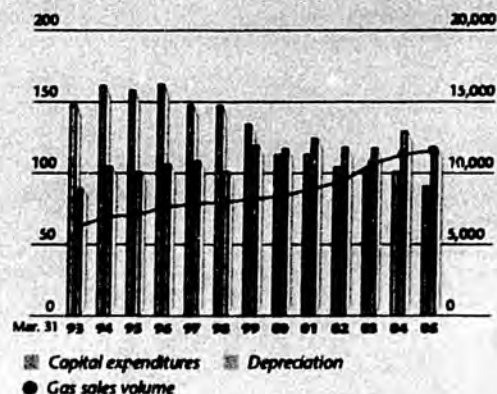
Just how powerful is Tokyo Gas' supply infrastructure? Tokyo Gas has Japan's largest natural gas supply capability and is progressively increasing capacity. Three LNG terminals—each of which plays a prominent role in Japan's gas industry—are at the heart of this strength. Our Negishi LNG Terminal received Japan's first shipment of LNG in 1969. Our Sodegaura facility is the world's largest LNG receiving terminal. And then there is the new Ohgishima LNG Terminal, the first phase of which came on stream in October 1998. Boasting the most sophisticated technologies, Ohgishima is of particular strategic importance. The terminal's location in the high-demand Keihin district near Yokohama means lower costs because a new long-distance pipeline was not required. Ohgishima will eventually have a production capacity of approximately 4 billion m³ per annum to respond to increasing demand.



The Negishi, Sodegaura and Ohgishima LNG terminals are now connected by a loop of high-pressure pipes following the December 1999 completion of the Keihin and Yokohama transmission pipelines. This means Tokyo Gas can start responding to rising industrial demand in the Keihin district near Yokohama, provide a more reliable supply of gas in the greater Tokyo area and meet rising demand in the future.

Capital Expenditures and Depreciation in Relation to Gas Sales Volume (1993-2005)

(Left scale: billion ¥)
(Right scale: million m³, 46.047 MJ/m³)



Note: 2001-2005 are projected figures. The above graph represents non-consolidated data.



The Sodegaura LNG Terminal is the world's largest LNG receiving terminal.

Extensive Transmission and Distribution Network

Investments to bolster our transmission capacity are allowing us to take maximum advantage of our competitive edge in production. With the completion of the Keihin Transmission Pipeline and the Yokohama Transmission Pipeline in December 1999, Tokyo Gas now has in place a 300km-long supply loop encircling the greater Tokyo area that is connected by high-pressure pipes to the Negishi, Sodegaura and Ohgishima LNG terminals. Why is this significant? Because it means we can now cater to rising industrial demand in the Keihin district near Yokohama where industrial demand is expected to increase markedly. It also means we have built a mutual backup system for our three LNG receiving terminals. In short, we have bolstered our ability to provide customers with a reliable supply of gas. And we will continue to extend our pipeline network to meet potential demand outside of our existing service area.

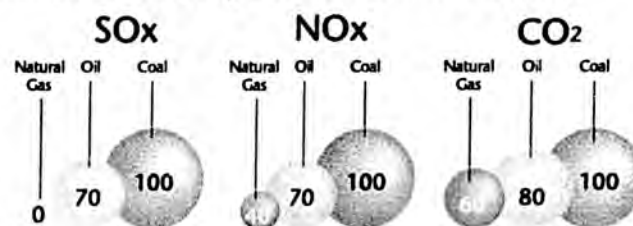
With these enhanced infrastructures we will be able to meet growing demand during the next few decades with minimum additional investment.

Environmental Conservation

At COP3 held in Kyoto in December 1997, targets were set by industrialized countries for the reduction of greenhouse gas emissions. The Japanese government has embraced Japan's goal of a 6% average cut in emissions between 2008 and 2012, compared with 1990 levels. Natural gas—one of the cleanest burning of all fossil fuels—is seen in many quarters as an important energy source for achieving this. As part of its ongoing environmental stewardship, Tokyo Gas formulated a new environmental policy in June 2000. And in July, Tokyo Gas made public its environmental accounting results. Our basic aim is continuous reduction of the environmental impact of energy use by our customers as well as by our own business activities.

The Inherent Advantages of Natural Gas

The environmental advantages of natural gas are clear. Facts bear this out. In terms of carbon dioxide (CO₂) emissions, the leading cause of the greenhouse effect, natural gas produces fewer emissions than oil or coal to generate the same amount of energy (see diagram). Furthermore, unlike oil and especially coal, natural gas does not produce any sulfur oxides (SO_x), which cause acid rain. Nitrous oxide (NO_x) emissions, another cause of acid rain, are lower with natural gas than



Source: IEA, *Natural gas prospects to 2010*, 1986.

with oil or coal. This makes natural gas the cleanest burning fossil fuel currently available.

Tokyo Gas Group Environmental Policy

(Formulated in June 2000)

PHILOSOPHY

The Tokyo Gas Group will promote the harmonious use of energy to contribute to the preservation of regional and global environments as well as to the sustainable development of society.

POLICIES

Reduce the environmental impact of customers' energy use

Tokyo Gas will actively and on an ongoing basis attempt to reduce the environmental impact of customers' energy use. We will do this by promoting the use of environmentally friendly natural gas and providing highly efficient products and systems with minimal environmental impact.

Reduce the total environmental impact of Tokyo Gas' business activities

Tokyo Gas will continuously reduce per unit energy and resource use in its business activities through the development of increasingly efficient and effective environmental management activities to contribute to the realization of a sustainable society. At the same time, Tokyo Gas will reduce overall environmental impact by aggressively promoting "green" purchasing and the reduction, reuse and recycling of industrial waste.

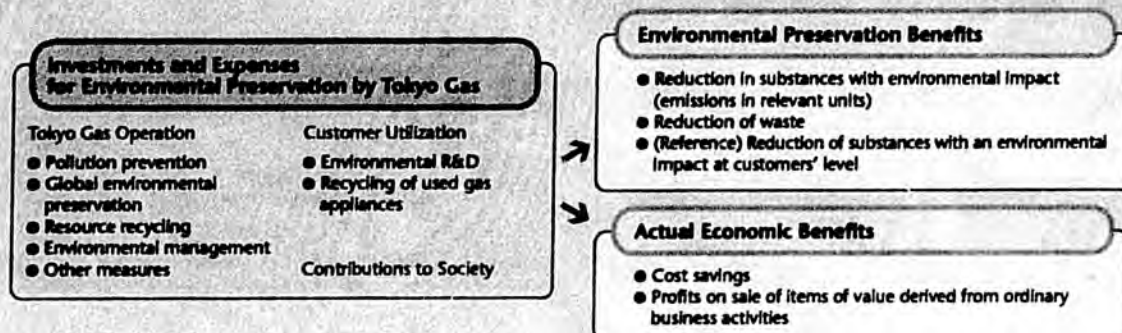
Strengthen environmental partnerships with local areas and the international community

Tokyo Gas will strengthen its environmental partnerships with both the local areas in which it operates and the international community by engaging in a wide variety of activities. These activities will range from participation in regional environmental activities to international sharing of technological developments, starting with strategies to prevent global warming.

Promote environment-related technology R&D

Tokyo Gas will proactively research and develop environmental technologies, including renewable energy, to preserve regional and global environments.

Overview of Tokyo Gas Environmental Accounting



Tokyo Gas has compiled parent-company environmental accounting results for the year ended March 31, 2000, based on Environmental Accounting Guidelines for Three Gas Companies issued in May this year. The figures show that the parent company invested approximately ¥0.8 billion and incurred expenses of roughly ¥3.7 billion for environmental preservation. There are two central features of Tokyo Gas' environmental accounting. One is the extremely low environmental impact of gas production, supply and other activities due to the completion of a switch to natural gas. The other is emphasis on research into methods to reduce the environmental impact of gas utilization by customers, mainly through the development of highly efficient gas appliances and systems such as micro cogeneration systems. More detailed information concerning Tokyo Gas' environmental accounting is contained in its Environmental Report 2000.

ISO Certification

Obtaining ISO certification has been positioned as a high management priority. In 1997, both the Negishi and Sodegaura LNG terminals obtained ISO 14001 certification; these facilities were the first in Japan's gas industry to obtain this international certification, which attests to the high quality of our environmental management systems. The Ohgishima LNG Terminal obtained ISO 14001 certification in January 2000. And in March 2000, the Shinjuku District Heating and Cooling Center became the first supplier of heat in Japan to attain ISO 14001 certification.

Recycling Initiatives

Recycling and decreasing waste volumes are other ways we reduce the environmental impact of our activities. SRIMS (Saving Recycling Innovative Model System) is at the heart of these efforts. This system facilitates the efficient collection, separation, management and disposal of used gas equipment, pipes and other industrial waste. In a similar vein, we are radically reducing the amount of earth removed from pipeline construction sites.

Technologies to Reduce Environmental Impact

Tokyo Gas feels that it has the responsibility to further reduce the environmental impact of natural gas. That's why we are

developing new ways to increase energy efficiency. Gas cogeneration systems and gas-fired air conditioning are just a few of the many technologies that are being widely adopted. In the fuel cell field, Tokyo Gas is developing an on-site generation system that boasts high generation and energy efficiency and emits almost no atmospheric pollutants. High hopes are held for the use of fuel cells in future residential cogeneration systems. Concern over dioxin emissions has also been increasing. To address this issue, Tokyo Gas has developed natural gas "reburning technology" for municipal solid waste incinerators.

Natural gas vehicles (NGVs) are also playing an integral role in reducing environmental impact. The Japanese government has set a target of having 1 million NGVs on Japan's roads by 2010. In addition, with an eye on the future, we are also seeking new, environmentally friendly forms of energy, such as methane hydrate.



The Earth & Energy Exploratorium was opened in November 1998 to promote greater understanding of the environmental issues associated with energy use. In the year ended March 31, 2000, the exploratorium was visited by approximately 100,000 people.

Safety

Since commencing operations in 1885, we have been steadfast in our commitment to safety. We believe that safety is an important element in increasing the convenience of gas and in winning over customers. Safety is not an issue that one can take for granted, especially in Japan, where earthquakes are common. Consequently, we are striving to raise safety levels even further.

A Total Commitment to Safety

Most gas-related accidents occur not during production or supply, but when gas is being used—often as the result of carelessness. To lower the accident rate to zero, we have implemented a multi-faceted approach. First, we are developing



Micon Meter

technologies such as Micon Meters. These are safety systems comprising gas meters with embedded microcomputers. Micon Meters enable 24-hour monitoring of gas use and can automatically shut off gas when they detect leaks, earthquakes or irregularities in use.

Tokyo Gas is also educating customers about the correct use of gas and carrying out regular inspections. Moreover, an emergency response system to prevent accidents has been set up.

Intelligent Service System

We also have an intelligent service system that links customers' gas meters with Tokyo Gas' monitoring station by telephone lines to monitor gas usage. The system is triggered when sensors detect irregularities, sending a message to Station 24, a 24-hour control center. This network facilitates 24-hour monitoring of gas use.

Gaslight 24—Responding to the Unexpected

Gaslight 24 is a 24-hour emergency response system capable of responding to gas leaks and other situations affecting main gas pipelines and service pipes as well as customers' gas equipment. Using EAGLE24, a mobile computer-based emergency operations support system, emergency vehicles and personnel can be mobilized quickly and accurately in accordance with the type and scale of the problem, as well as other circumstances.

Three-Stage Earthquake Safety System

Tokyo Gas has a three-stage safety system to ensure stable supply in the event of an earthquake. The first stage is prevention to minimize damage. Our production and supply facilities are designed to the latest earthquake-proofing standards. The second stage is our emergency response. The aim here is to prevent secondary damage such as fires and explosions. Finally, we are prepared to move quickly to restore service should it be interrupted and to continue supply to areas largely unaffected. To take our system up to the next level, we will install 3,700 state-of-the-art seismic intensity sensors at locations throughout our 3,200km² service area. These sensors will be monitored by SUPREME, the world's most advanced disaster prevention system.



Center for Supply Control and Disaster Management



A state-of-the-art seismic intensity sensor

Corporate Citizenship

Tokyo Gas touches the lives of just about everyone living in the greater Tokyo area on a daily basis. Our growth is dependent on deepening this symbiotic relationship with our customers. Based on this fact, we are taking an active—and visible—role in the communities we serve.

Our disparate activities fall into three categories: environmental protection, philanthropic, and cultural and sports. Programs are deeply rooted in our service areas. Activities range from tree planting, recycling programs and seminars to raise environmental awareness to sponsorship of soccer clinics. In this section, some of the major activities undertaken during the year under review are profiled.

Earth Vision Film Festival

Tokyo Gas has been a special sponsor of the Earth Vision Film Festival since 1992. The event aims to raise environmental awareness through films. Submissions are solicited in Japan, Asia and Oceania. The best films are selected for public showing at the festival. The 8th Earth Vision Film Festival was held over two days in Tokyo in March 2000 and was attended by nearly 1,200 people. The festival was also held for the second time in Paris, attracting over 300 people.

Leave System Encourages Volunteerism

To encourage volunteerism, we have a Volunteer Leave System. Employees are given up to 5 days a year of paid leave to participate in volunteer activities. In the year ended March 31, 2000, 38 employees took advantage of the system.

Promoting Tokyo's First Professional Soccer Team

In November 1999, FC Tokyo, Tokyo's first J League professional soccer team, gained promotion to Japan's "premier league." Tokyo Gas is one of the team's main sponsors. FC Tokyo was established in 1998 as the successor to the Tokyo Gas Football Club. Indeed, Tokyo Gas' involvement in supporting soccer in the Tokyo area dates back a number of years. By supporting FC Tokyo and running soccer clinics, Tokyo Gas will continue to encourage regional sports.



© FC Tokyo



Left
The FC Tokyo eleven

Center
The Tokyo Gas "Gas Science Center" was visited by about 100,000 people in the year ended March 31, 2000.

Right
Poster for the 8th Earth Vision Film Festival



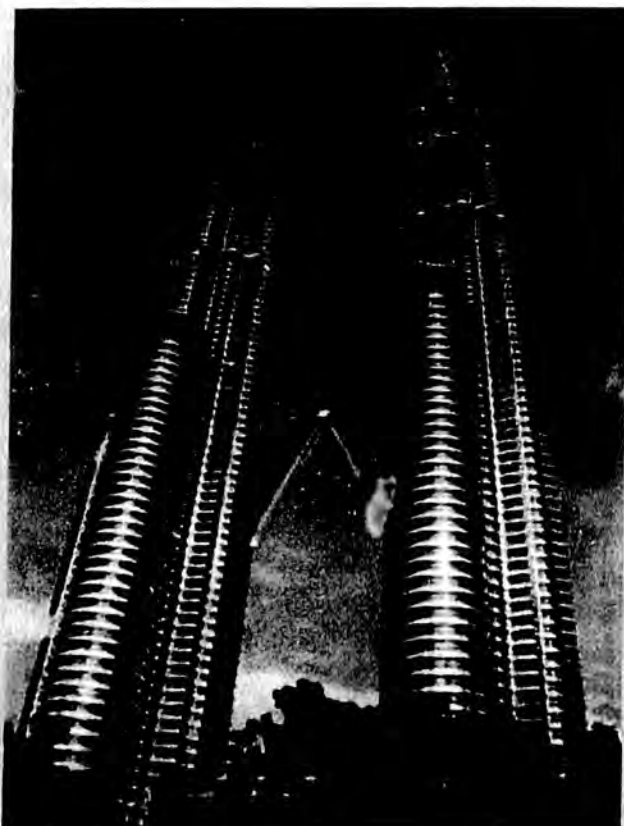
International Operations

Tokyo Gas is tapping its wealth of knowledge in natural gas and the supply of gas to contribute to the development of gas infrastructures and economic growth in other countries, particularly those in Asia. Additionally, we have forged partnerships with companies similar to our own and various institutions overseas for the purposes of technological and managerial information exchanges. Coordinating these efforts are our four representative offices in New York, Paris, Kuala Lumpur and Beijing. They are also our contact points for overseas investors.

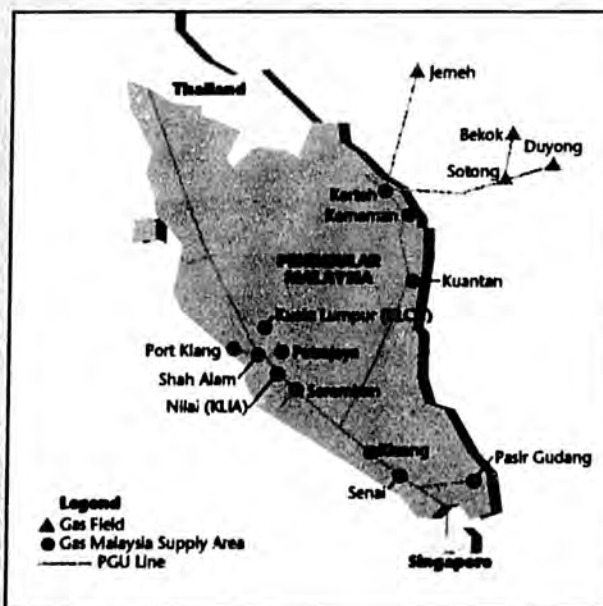
Tokyo Gas' Overseas Activities

Tokyo Gas has a proud track record of helping other countries to build gas supply infrastructures. Recently, Tokyo Gas and its group companies have been instrumental in a number of successful projects. In Malaysia, we have been active in a natural gas distribution system project and a gas-fired cogeneration district cooling project—both firsts in that country. The former was conducted through a joint venture company, Gas Malaysia Sdn. Bhd., with Petronas, Malaysia's state-owned oil company, and other local partners. Tokyo Gas won the international contract in 1991, its management

and technical expertise being highly rated by the project tender committee. The project—the first full-fledged overseas project by a Japanese energy utility company—is now regarded as a model for other Asian countries hoping to build a similar infrastructure. In 1999, Gas Malaysia started paying dividends. The gas-fired cogeneration district cooling project was another joint venture with Petronas through Gas District Cooling (M) Sdn. Bhd. Thanks to this project, Malaysia's Kuala Lumpur International Airport (KLIA), which opened in June 1998, boasts the world's largest class of gas district cooling supply based on gas absorption chillers. Office

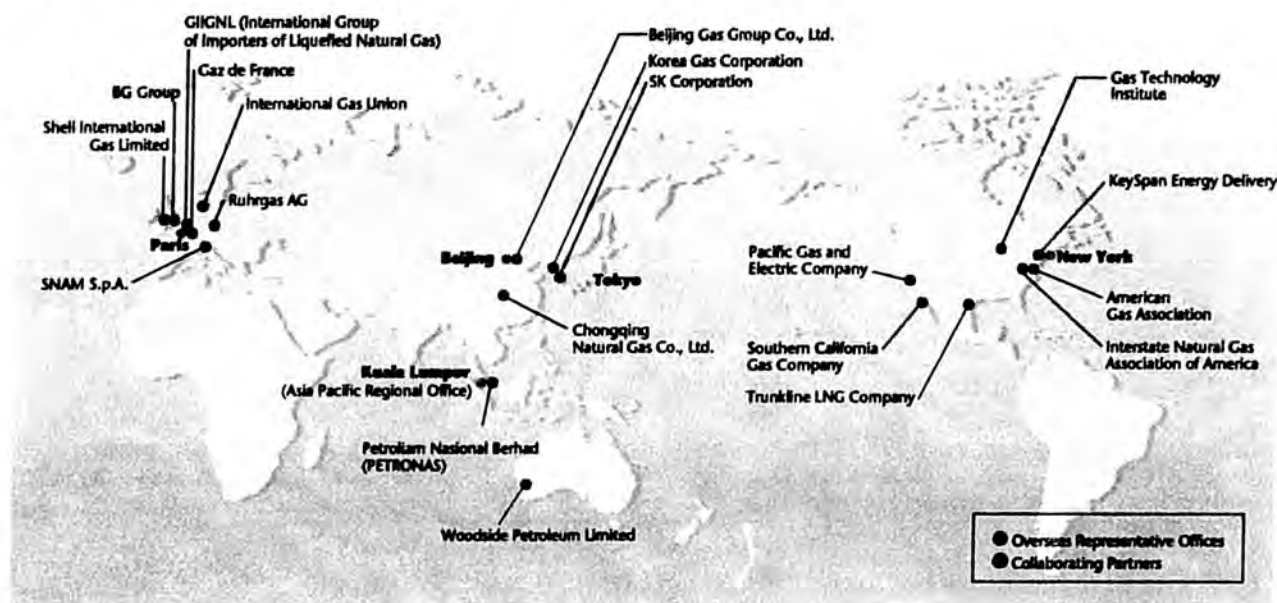


Natural Gas Distribution System in Malaysia



The Petronas Twin Towers, the tallest buildings in the world, are supplied with chilled water by a gas district cooling (GDC) system.

Tokyo Gas' Overseas Representative Offices and Collaborating Partners



buildings, hotels and other facilities in central Kuala Lumpur have benefited as well from the company's cooling systems. Meanwhile, Tokyo Gas Engineering Co., Ltd. has been providing technical consultation, for example, for the establishment of LNG receiving facilities in Korea, Taiwan, Thailand, and Portugal. Tokyo Gas is leveraging experience and technology from its three LNG terminals, including the recently completed Ohgishima facility. Moving forward, Tokyo Gas intends to identify and develop business opportunities in which it can capitalize on technological expertise built up in Japan.

Information Exchanges Lead to Better Operations

We have four representative offices overseas: New York, Paris, Kuala Lumpur and Beijing. Through these offices we are

forging closer ties with energy-related companies and institutions—some we have been associated with for over 20 years—around the globe. Collaboration involves joint research and the exchange of information on managerial and technical issues, as well as staff. Drawing on this information, we are working to improve our operations, including our gas supply facilities and services. As deregulation sweeps through the Japanese energy industry, such tie-ups will take on added meaning. The offices also play a vital role in communicating information to shareholders and in gathering information from the capital markets, which is reflected in management policy.

Malaysian trainees



Mr. Gerald Doucet, Secretary General of the World Energy Council, on a visit to Tokyo Gas.

Diversification

The Tokyo Gas Group is aiming to increase earnings as a diversified energy services company by carrying out core gas operations as well as operating energy-related businesses that complement and add value to those operations. Furthermore, to respond to the IT revolution and Japan's "graying" society as well as contribute to environmental protection, Tokyo Gas is actively promoting various new businesses that transcend the bounds of the energy sector. Two examples of these are urban development and information-related businesses. In respect of our 47 subsidiaries, we are working to raise their profitability and foster autonomy with a view to taking them public in the future. These actions are being taken in line with our Medium-Term Management Plan. This plan also calls for the streamlining of unprofitable businesses to maximize consolidated earnings.

Subsidiaries and Affiliate

Company	Equity Interest (%)	Business
Tokyo Gas Energy Co., Ltd.	100	Sales of liquefied petroleum gas (LPG) and coke
Tokyo Gas Chemicals Co., Ltd.	100	Sales of gas for industry and chemicals
Tokyo Oxygen and Nitrogen Co., Ltd.	54	Production and wholesale of liquefied oxygen and nitrogen
Tokyo Gas Urban Development Co., Ltd.	100	Real estate leasing, management and brokerage, etc.
Park Tower Hotel Co., Ltd.	100	Hotel management
KANPAI CO., LTD.	93.3	Gas facilities construction and gas appliance sales
Gastar Co., Ltd.	66.7	Production and wholesale of gas appliances
TG Credit Service Co., Ltd.	100	Leasing of information equipment, gas appliances and office equipment, and credit administration connected with gas appliances and installations
Chiba Gas Co., Ltd.	99.9	Supply of gas to Chiba City and surrounding cities
Tsukuba Gakuen Gas Co., Ltd.	100	Supply of gas in Tsukuba City
Tokyo Gas Engineering Co., Ltd.	100	Comprehensive engineering services with a particular focus on energy-related work
TG Information Network Co., Ltd.	100	Information processing services, software development and sales of computer equipment, etc.
TG Enterprise Co., Ltd.	100	Financial administration and building leasing for Tokyo Gas and related companies
Tokyo LNG Tanker Co., Ltd.	100	LNG and LPG transportation and chartering of carriers
Gas Malaysia Sdn. Bhd.*	20	Supply of gas in Malaysia

* Equity-method affiliate



Left

A room at the Park Hyatt Tokyo, managed by Park Tower Hotel Co., Ltd. The modern interior and superb view of the Shinjuku district make a stay a truly memorable experience.

Right

This ultra-low-temperature, deep-freeze warehouse for tuna is one example of the cryogenic utilization of LNG.

Topics

Increasing Focus on LNG and LPG Transportation Business

In July 2000, Tokyo Gas announced its intention to build and operate two LNG carriers. The first vessel is slated for completion in 2003, while delivery of the second is expected in either 2005 or 2006. Tokyo Gas already owns shares of LNG and LPG carriers through our subsidiary Tokyo LNG Tanker Co., Ltd. This subsidiary was established in 1991 with two goals in mind: reducing the import price of LNG and LPG feedstocks; and securing a stable energy supply.

The two proposed new vessels will allow Tokyo Gas to take advantage of new procurement methods such as short-term contracts and spot tradings, as well as to transport LNG procured under long-term contracts. The result will be a further reduction in LNG import prices and greater purchasing flexibility. Moreover, Tokyo Gas is seeking to further develop its LNG transportation business in areas such as supplying LNG to third parties.



Key Ingredient For Breakthrough Diagnostic Method

Since 1989, Tokyo Gas has been working on a process to separate and condense ^{13}C -Methane from natural gas. The first shipments were made in May 2000, following completion of a plant to produce ^{13}C -Methane for commercial use—the first of its type in the world. The ^{13}C -Methane will be processed into $^{13}\text{CO}_2$ by Tokyo Gas Chemicals and sold to Otsuka Pharmaceutical Co., Ltd. for use in a breakthrough drug that we developed with them. The drug diagnoses the existence of *Helicobacter pylori*, a common cause of gastritis and gastric ulcers, and will make for more patient-friendly diagnoses of these ailments.

Looking ahead, Tokyo Gas intends to develop diagnostic drug applications using ^{13}C -Methane to detect, for example, diabetes and cerebral disease. By aggressively promoting ^{13}C -Methane in the pharmaceutical raw materials field, Tokyo Gas will develop new value-added businesses for LNG.



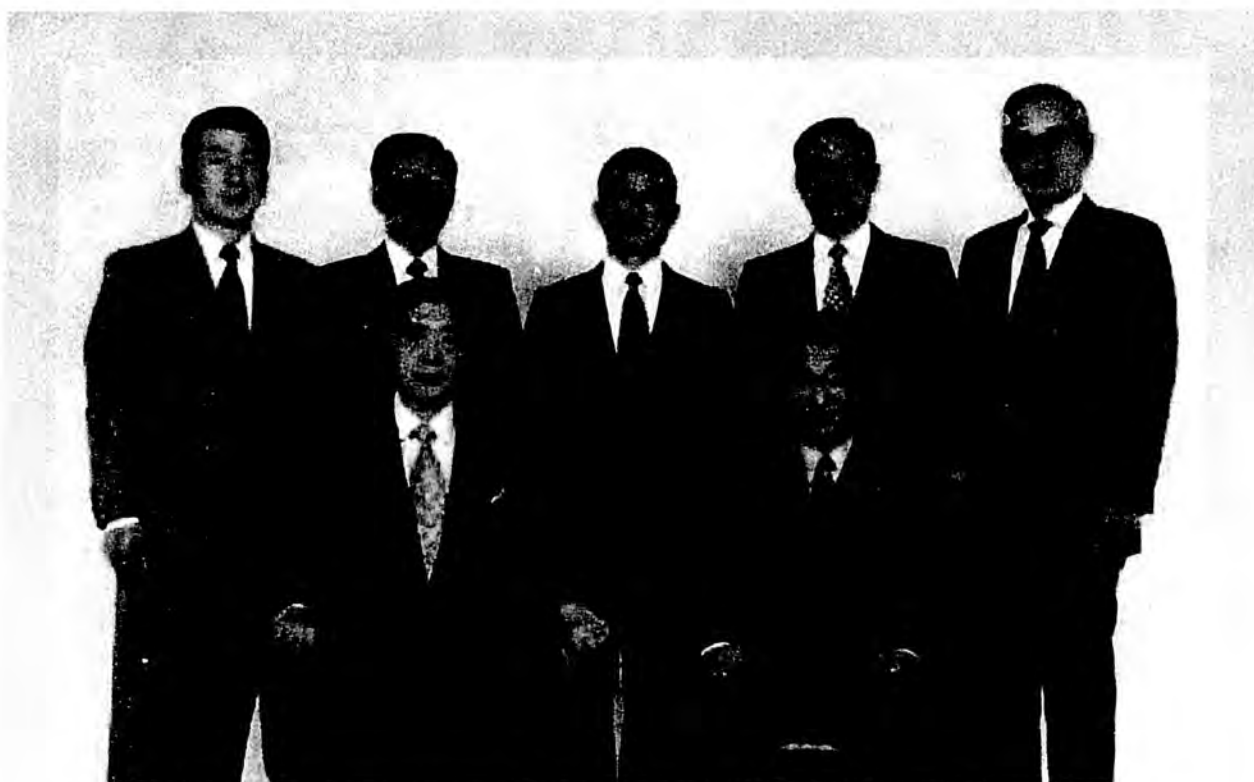
Tokyo Gas Looks to Enter Electricity Retailing and Telecommunications Fields

In July 2000, Tokyo Gas, together with NTT Facilities Inc. and Osaka Gas Co., Ltd., established a planning company to examine the feasibility of entering the electricity retailing field. The new company, ENNET Corporation, will draw on the expertise and in-depth knowledge of these three partners in the energy field to develop high-value-added electricity operations, taking full advantage of IT to optimize the distribution of energy.

Tokyo Gas has also teamed up with Marubeni Corporation and Global Bandwidth Solutions, Inc., a wholly owned Marubeni subsidiary, to deliver next-generation, high-speed broadband communications services to end users over the "last mile" in Japan. The "last mile" refers to the crucial final leg of service distribution from the broadband infrastructure to end users. In this IT age, development of new business models beyond the realm of energy supply that harness the power of IT will be essential growth drivers. By participating in this endeavor, Tokyo Gas has taken an important first step in its new information and telecommunications strategy. We expect to build up invaluable experience in the IT field from this venture.



Board of Directors



Soichiro Akimoto
Senior Managing Director

Haruno Ito
Executive Vice President

Yasuyuki Yamaguchi
Executive Vice President

Toshiyuki Takasuna
Senior Managing Director

Norio Ichino
Senior Managing Director

Kunio Anzai
Chairman

Hideharu Uehara
President

Managing Directors

Fumio Ohori
Norihiro Takuma
Tohru Itoh
Hideo Nishiwaki
Shouzou Ohno
Kouya Kobayashi
Masahiro Ishiguro
Mitsunori Torihara
Shigero Kusano

Directors

Yoshihito Imura
Takeki Hirooka
Yasuyuki Makiuchi
Hiroshi Urano
Minoru Yokouchi
Takeo Kuno
Takeo Ishikawa
Tadashi Sakurai
Tadashi Zemba

Tadaaki Maeda

Ieaki Uemura
Takashi Kunitomi
Tsunenori Tokumoto

Corporate Auditors

Akira Ogawa
Shigeru Ogasawara
Kenshiro Koto
Gaishi Hiraiwa
Masayuki Sato

(As of June 29, 2000)

Perspective of the Asian LNG Market in the 21st Century

- 30 years from the Alaska LNG -

Presentation at PAC COM Conference in Anchorage

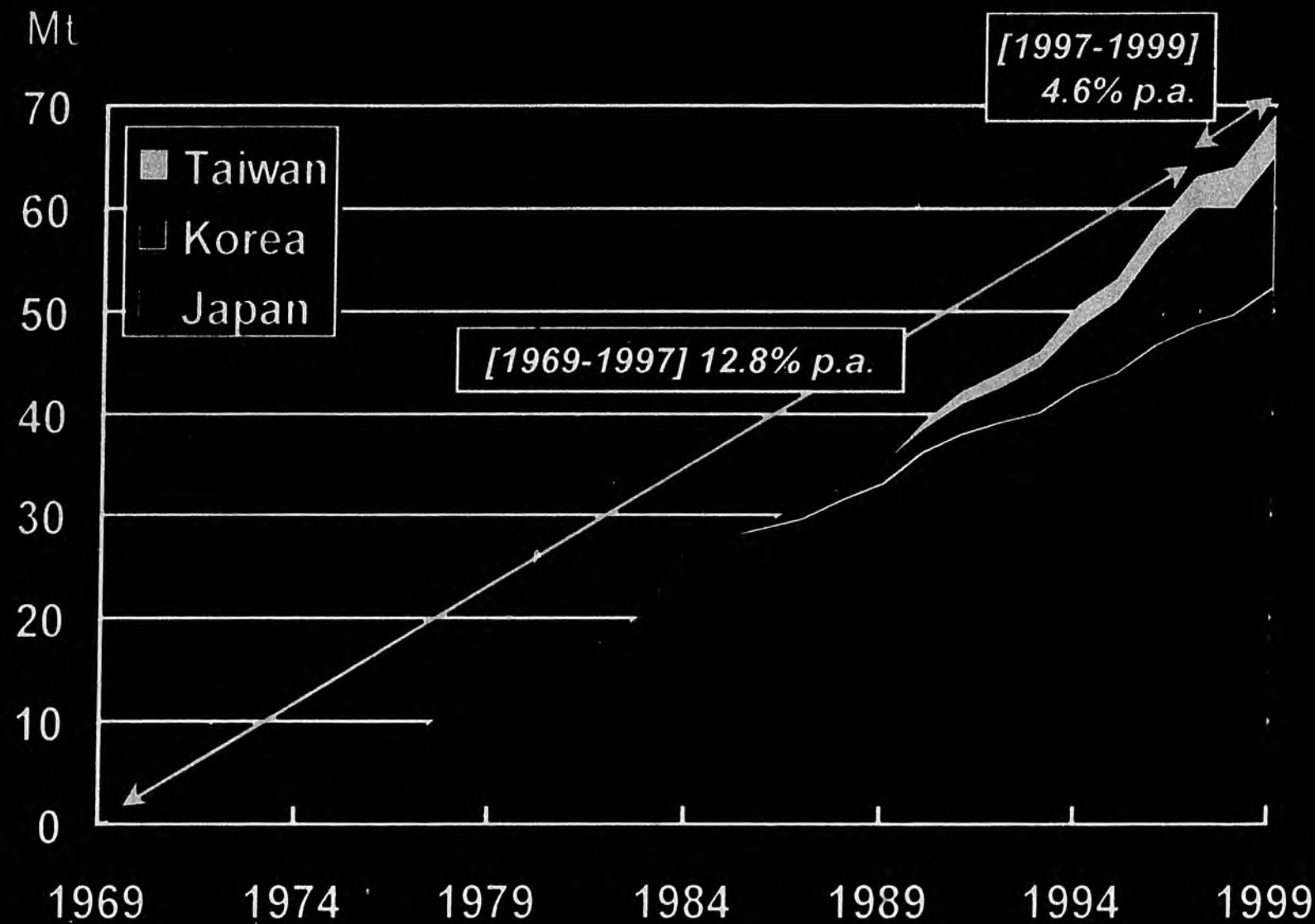
February 14, 2001

Shigeru MURAKI

Tokyo Gas Co., Ltd.



LNG Demand in the Asia and Pacific [1969-1999]



LNG Trade in the Asia and Pacific

1997-
Qatar 10.8 Mt

1977-
Abu Dhabi 4.3 Mt

2000-
Oman 4.7 Mt

1983-
Malaysia 15.2 Mt

1989-
Australia 7.3 Mt

1969 -
Alaska 1.3 Mt

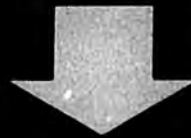
1972-
Brunel 6.7 Mt

1977-
Indonesia 27.0 Mt

Contracted Quantity as of 2000

Energy Market in the 21st Century

Privatization, Deregulation, Liberalization



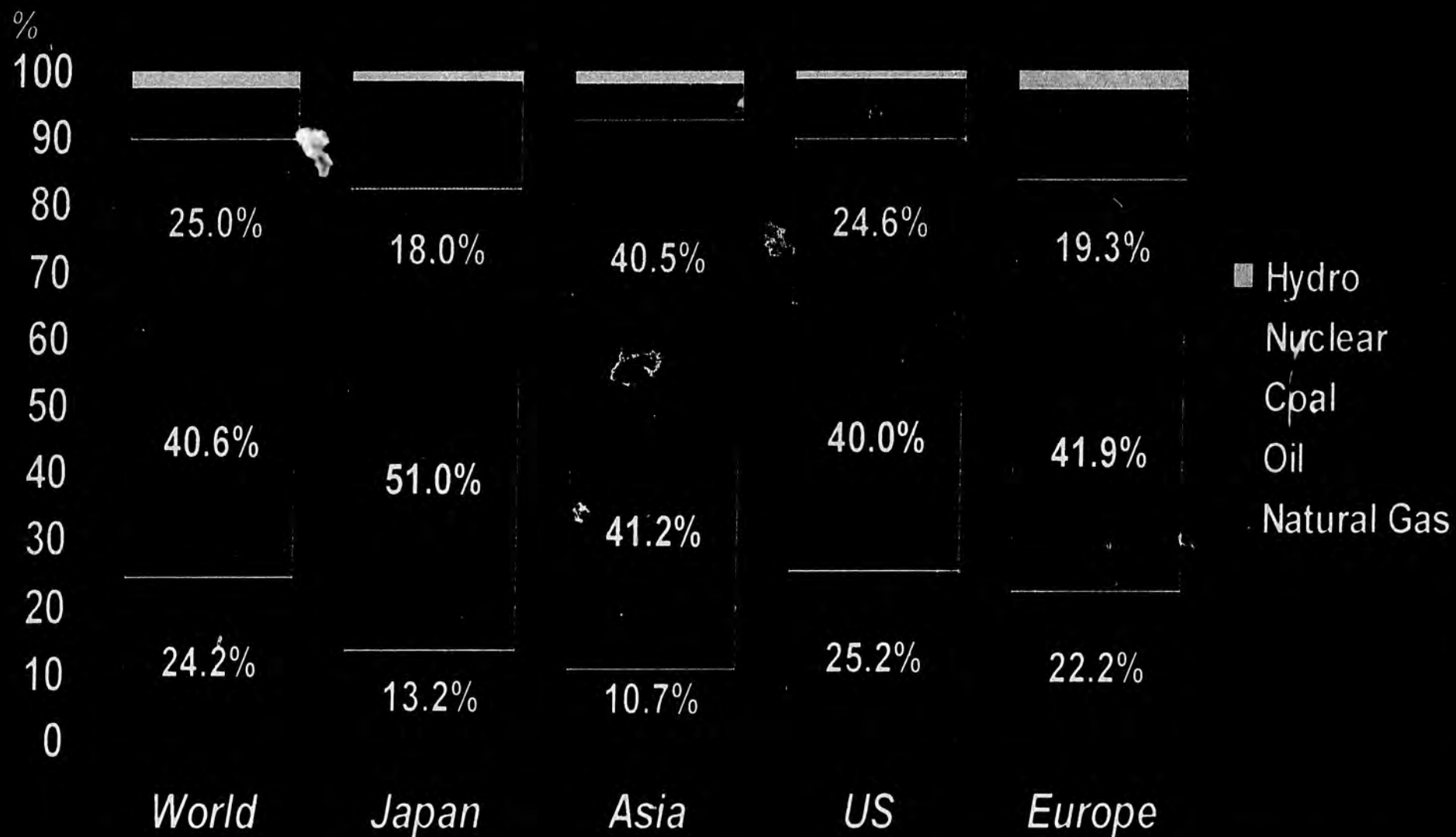
Energy Mega-Competition

Environmental Concern, Noble Use of Energy



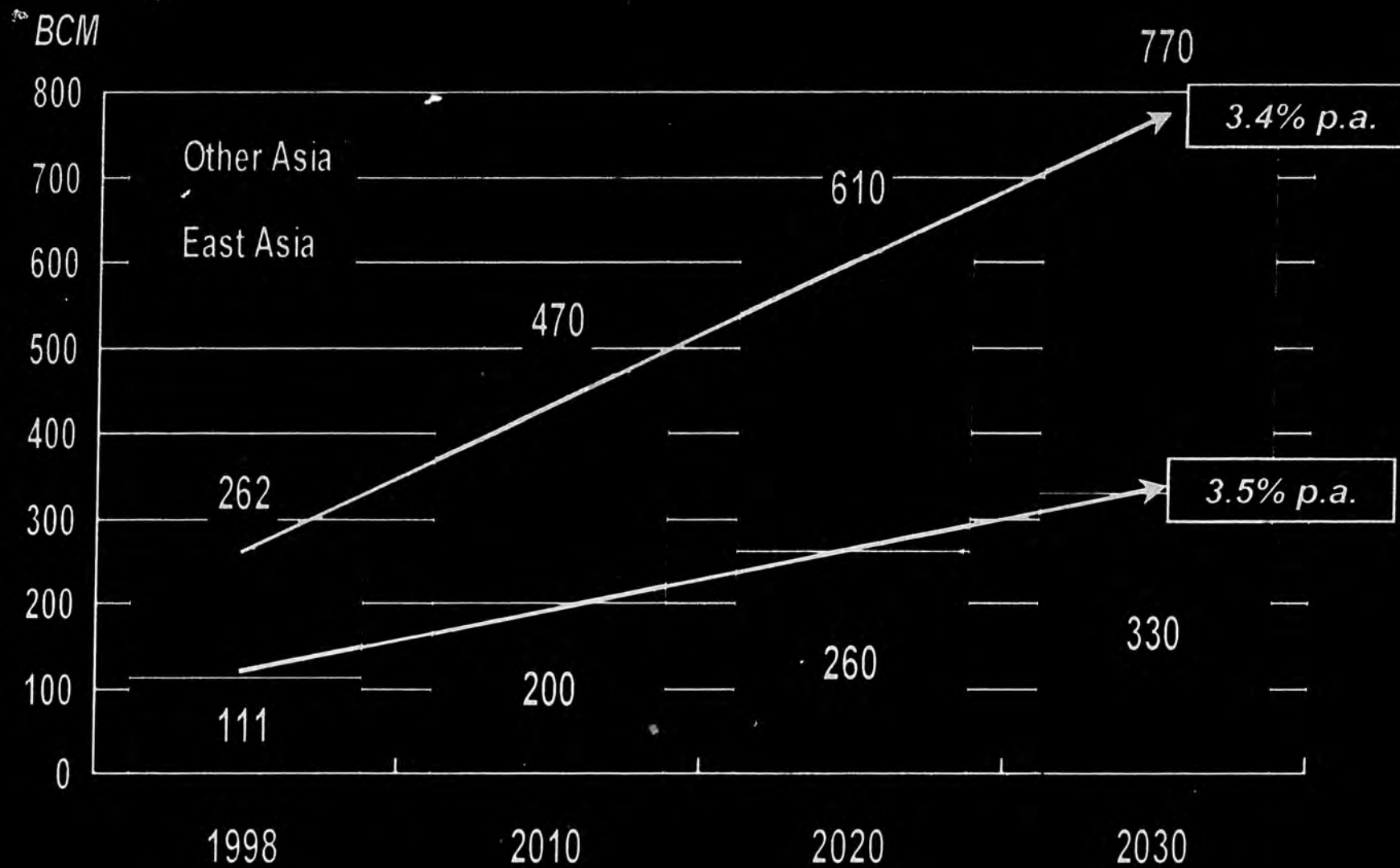
Century of Natural Gas

Breakdown of Primary Energy Demand



Natural Gas Demand Outlook of the Asia Pacific

- by IGU, June 2000 -



Market Liberalization - JAPAN

Gas Industry

- *Liberalization of supply to large scale customers*
 - > 2MMCM p.a.(1995-) ▶ 1MMCM p.a.(1999-)
 - > 11 Contracts by new entrants (some 180MMCM p.a.)
 - > new entrant: Domestic Gas Producers, Power Companies, Steel Companies
- *Third party access to pipeline networks of 4 major gas utilities (1999-)*

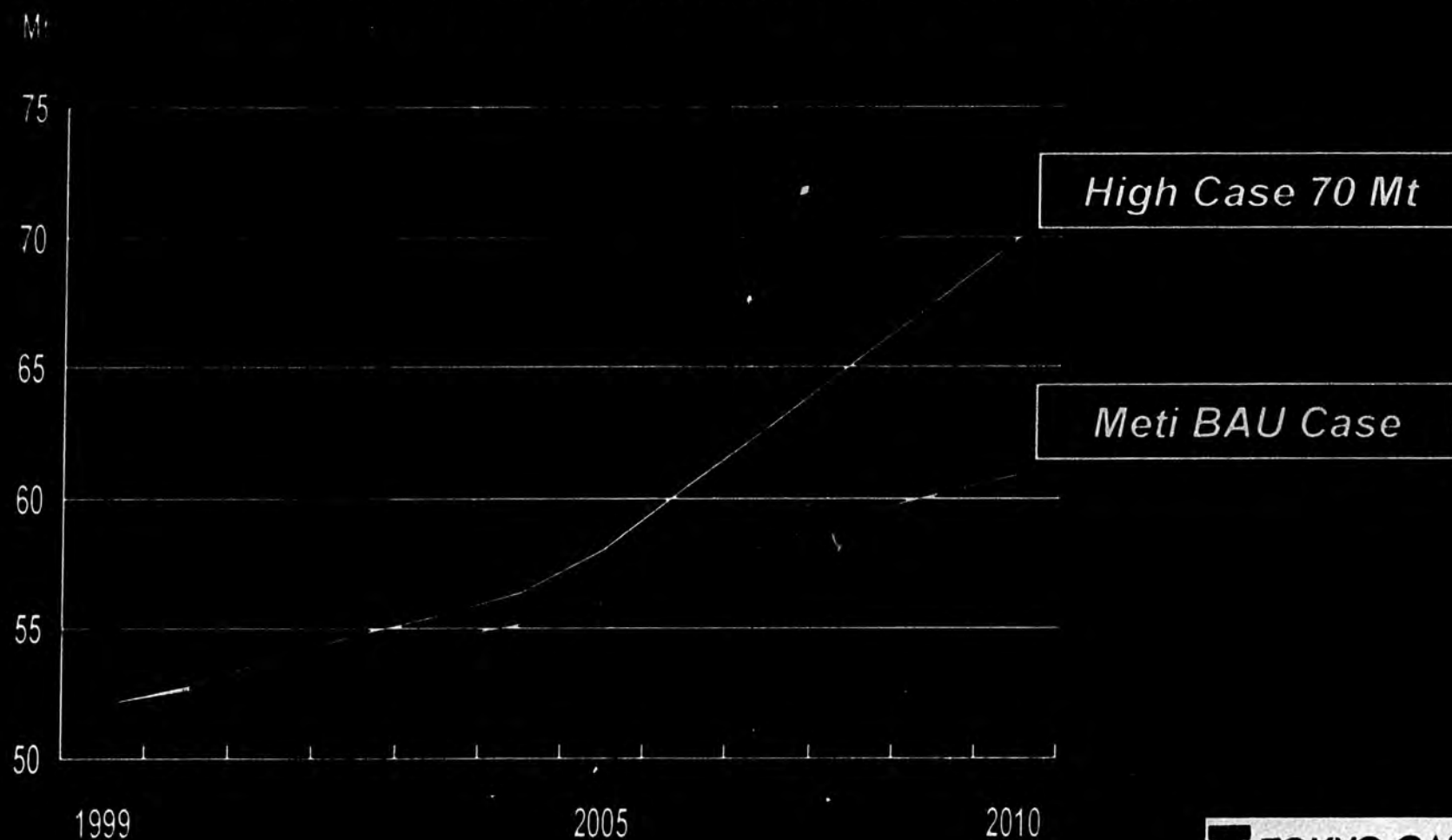
Electric Industry

- *Wholesale IPP bidding introduced (1996-)*
 - > 41 projects (6,728 MW) including Gas-Fired 4 projects (733 MW)
- *All new thermal power units (utility owned power stations / IPPs) in bidding (2000 -)*
- *Partial liberalization of retail market (2000 -)*
 - > 2MW p.a. supplied by 20,000V line (30% of current sales)
 - > new entrants: Ennet (NTT +Tokyo Gas +Osaka Gas), Marubeni Vivendi, Diamond Power(Mitsubishi), E Power(Enron + Orix), etc
 - > electricity tenders: e.g. MITI building is awarded to Diamond Power

--- Further deregulations are scheduled in 3 years ---

LNG Demand Outlook - JAPAN

- *Moderate Energy Demand Growth: 1.1%*
- *Slow Development of Nuclear Power*
- *Increased Concern on GHG Emission*



Market Liberalization - KOREA

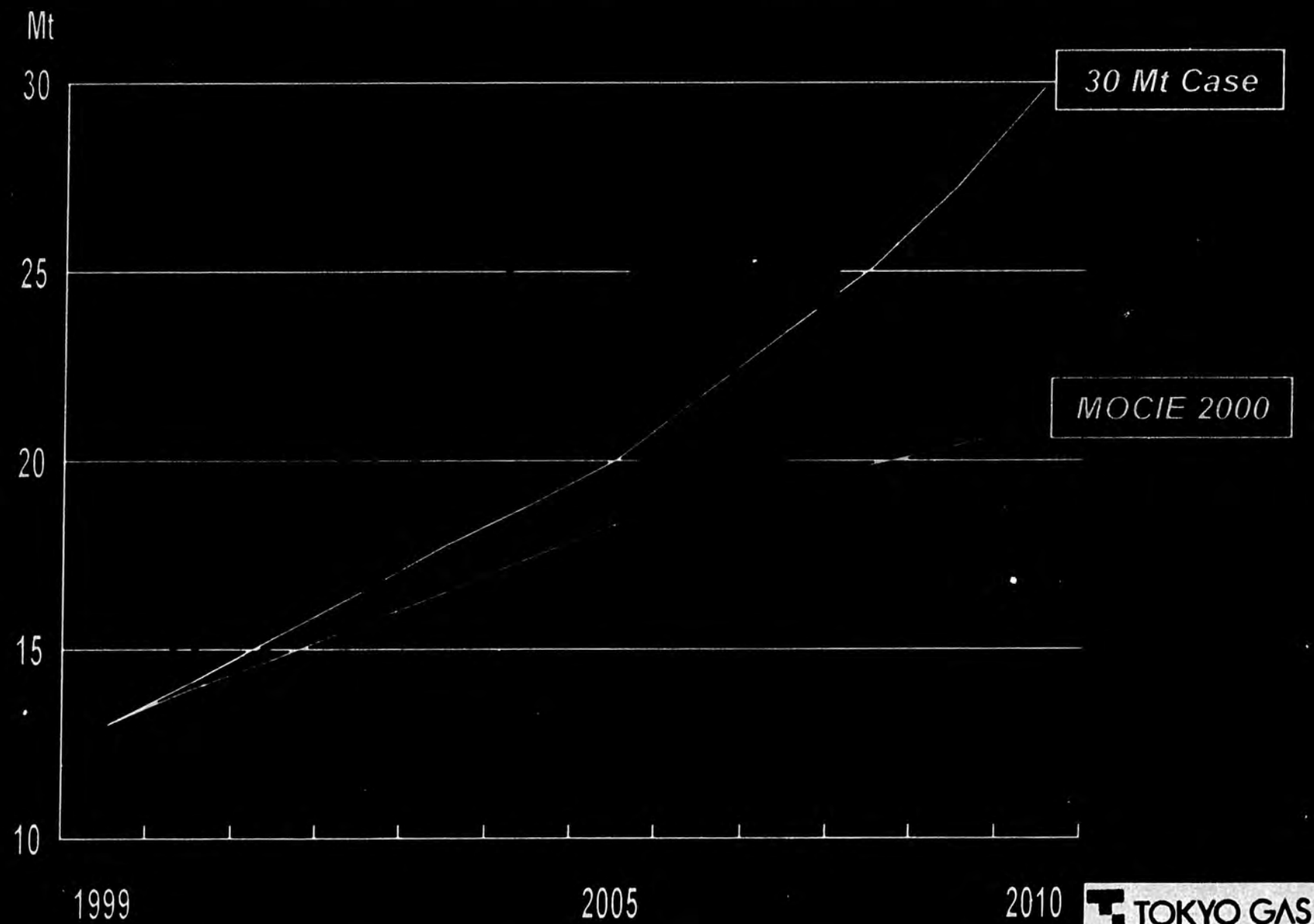
Gas Industry *Basic procedure announced in November 1999*

- *Liberalization of LNG import in 2001*
- *Unbundling of KOGAS*
(Import/ Wholesale Sector) to 3 affiliate companies (to be privatized)
(Terminals/ Pipeline Sector) Introduction of 3rd party access

Electric Industry *Basic procedure announced in November 1999*
Legislation passed the Parliament in December 2000

- *Unbundling and introduction of competition in*
Power generation (-2002)
Wholesale sector (2003-2008)
Retail sector (2009-)

LNG Demand Outlook - KOREA



Market Liberalization - TAIWAN

- *IPP bidding introduced*

including 14 Natural Gas Fired IPP approved by July 2000

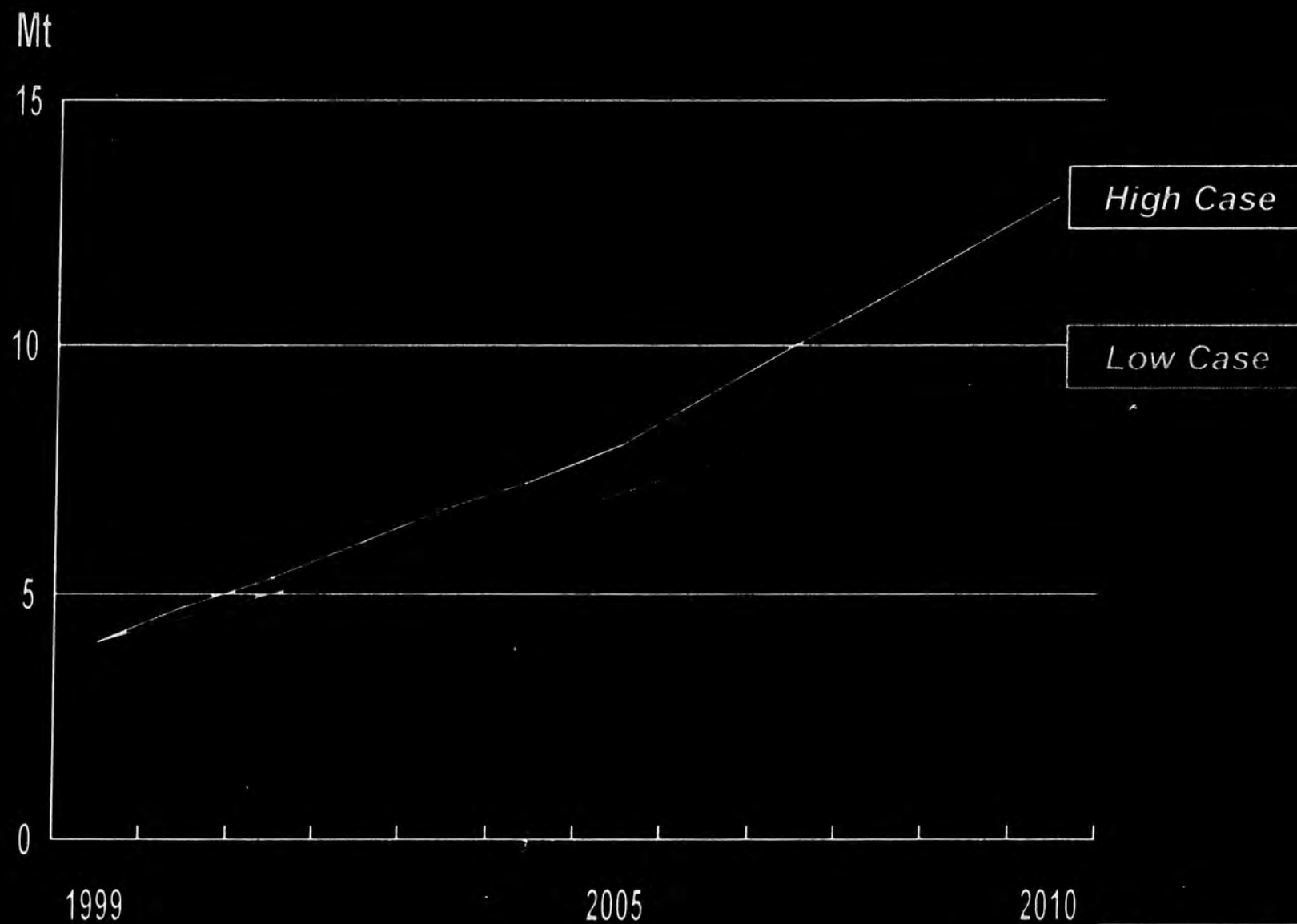
- *Privatization of CPC and TPC*

Target 2001

- *New LNG importer expected in the 2nd LNG terminal*

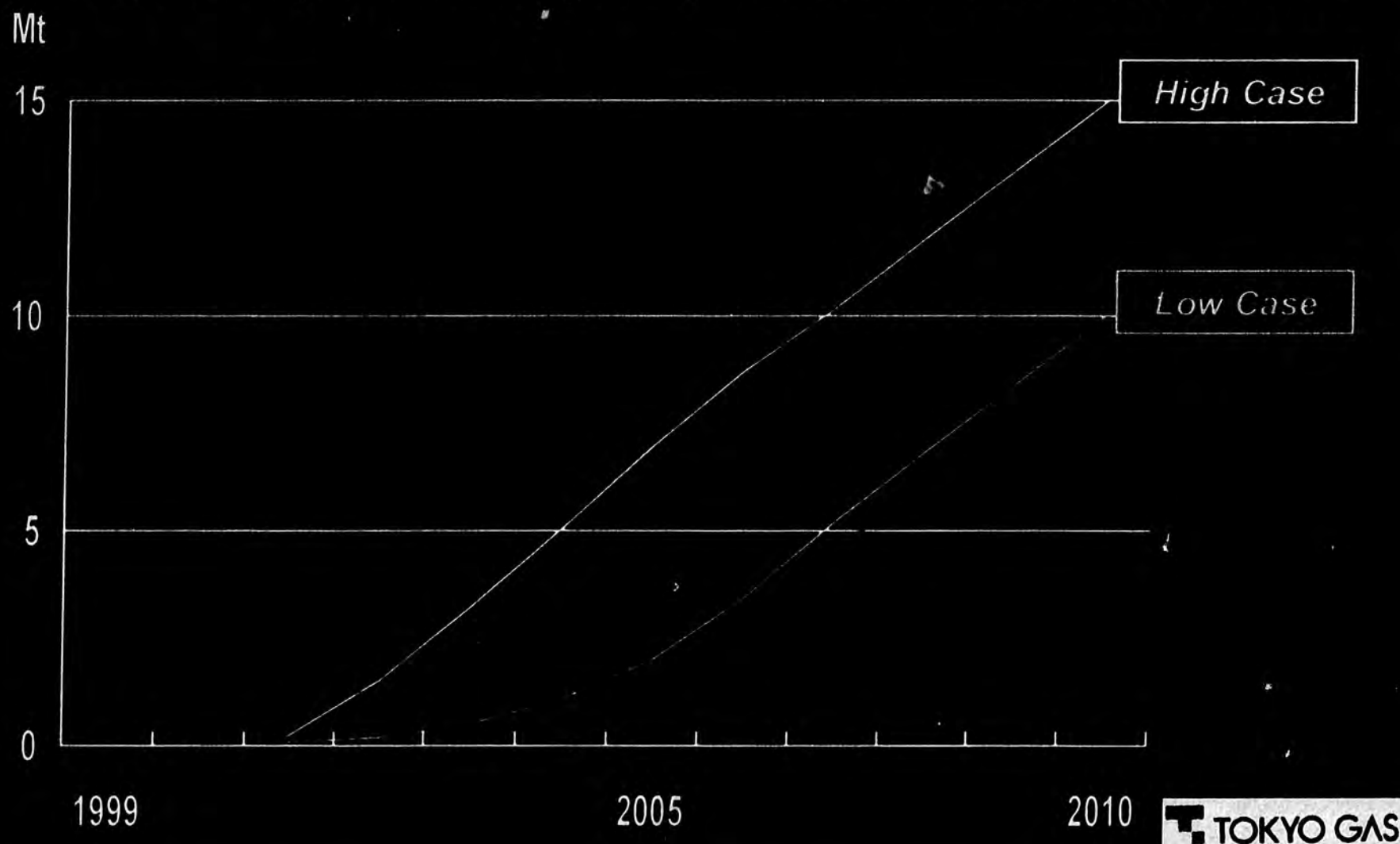
Tender for Tatan Gas-fired Power Plant

LNG Demand Outlook - TAIWAN



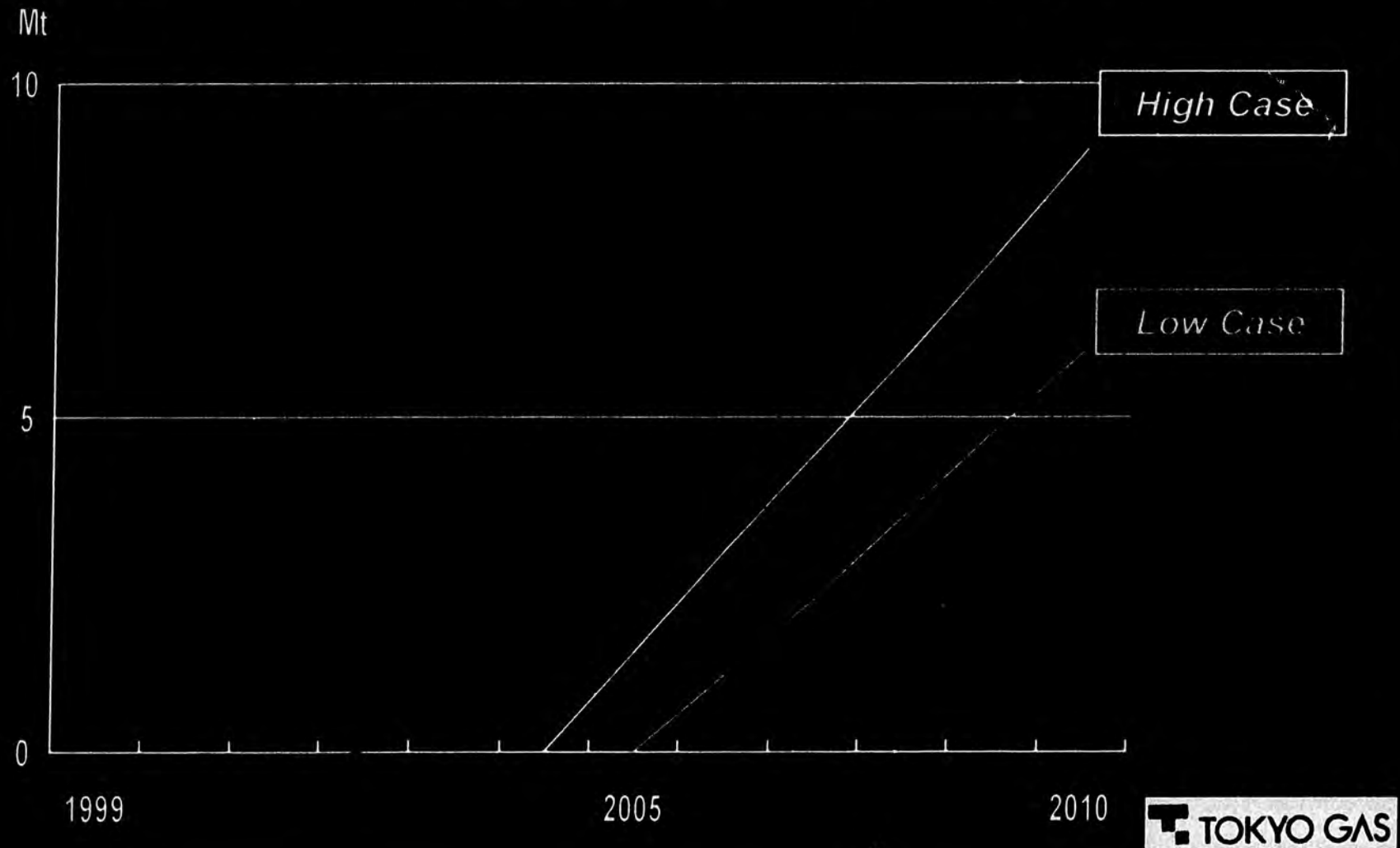
LNG Demand Outlook - INDIA

- Start of LNG Import: 2001 by Dabhol Power
- Potential Projects in Gujarat, Maharashtra, Tamil Nadu

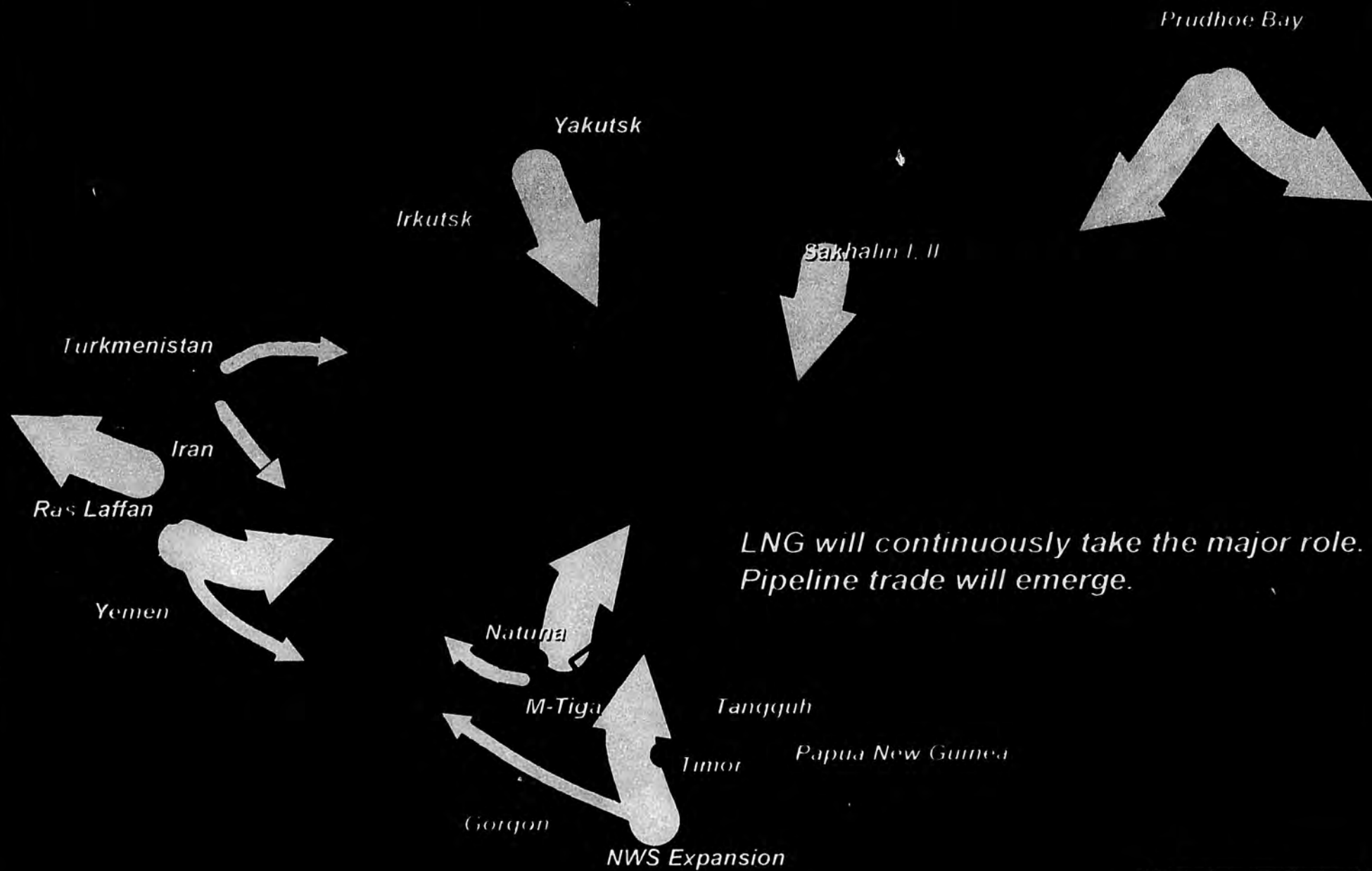


LNG Demand Outlook - CHINA

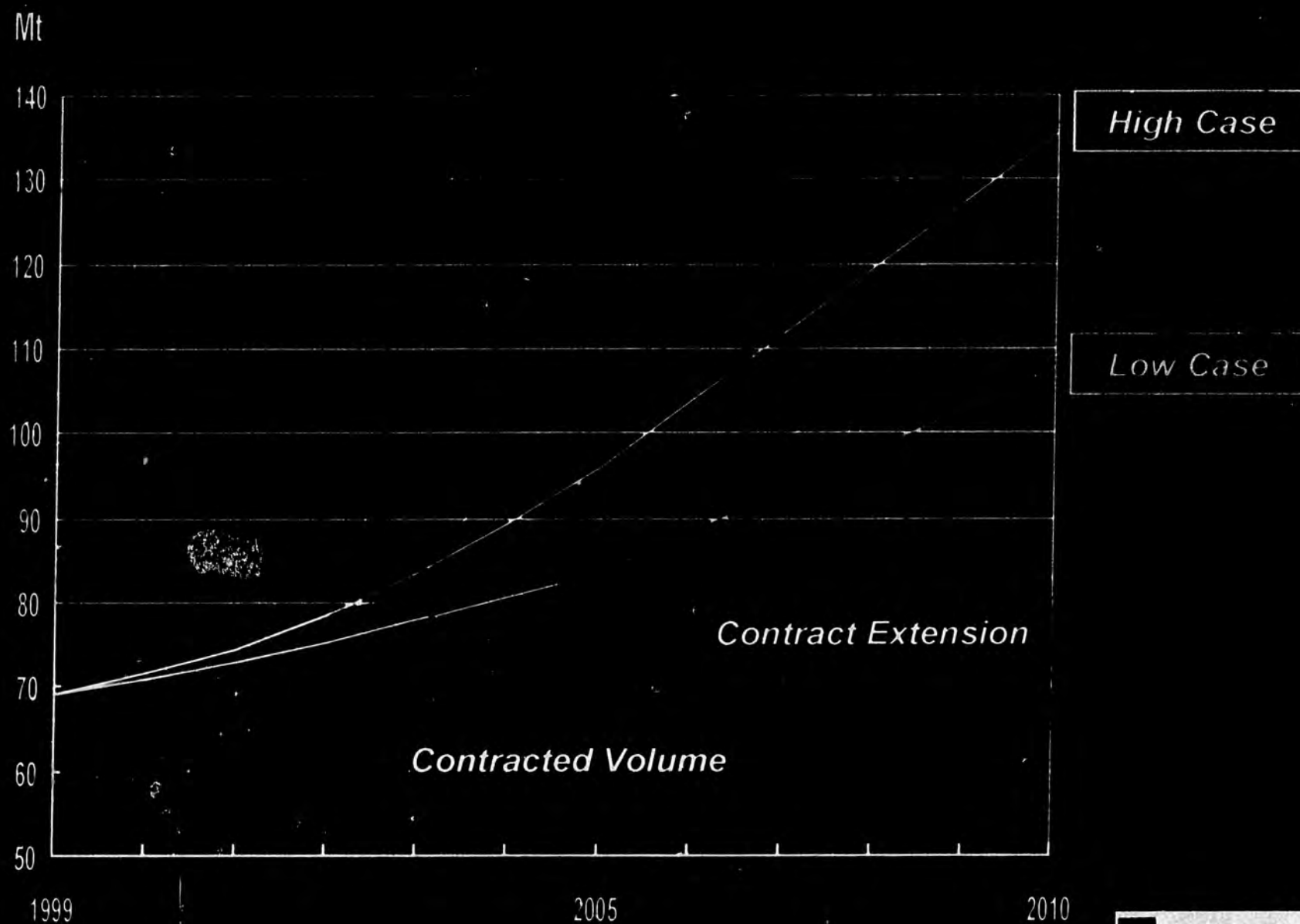
- First LNG Import Project: Guangdong, 3 mtpa, 2005
- Potential LNG Imports in Yantsu Delta, Fujian



Future Natural Gas Trade in the Asia and Pacific



LNG Demand Outlook in the Asia and Pacific



Challenges of LNG in the Liberalized Market

*Energy
Mega-Competition*

*Inter-fuel
Competition*

*Gas to Gas
Competition*

*Competitive
Pricing*

*Increased
Flexibility*

*Increased Competitiveness
of LNG*

Market Oriented Pricing Mechanisms

- Decoupling from Oil Indexation?

Combination of

- Long-term Contracts

- Short-term Contracts

- Spot Cargoes

Cost Reduction in Transportation

- Swapping, Backhauling